



STATE OF CALIFORNIA

GAVIN NEWSOM **FILED**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

10/19/21
03:42 PM

October 19, 2021

Agenda ID #20002
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 19-07-004:

This is the proposed decision of Administrative Law Judge Carolyn Sisto. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's November 18, 2021 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ ANNE E. SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:jnf

Attachment

Decision **PROPOSED DECISION OF ALJ SISTO** (Mailed 10/19/2021)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American
Water Company (U210W) for
Authorization to Increase its Revenues
for Water Service by \$25,999,900 or
10.60% in the year 2021, by \$9,752,500
or 3.59% in the year 2022, and by
\$10,754,500 or 3.82% in the year 2023.

Application 19-07-004

**DECISION APPROVING AND ADOPTING SETTLEMENT AGREEMENTS,
RESOLVING THE REMAINDER OF DISPUTED ISSUES AND AUTHORIZING
CALIFORNIA-AMERICAN WATER COMPANY'S GENERAL RATE
INCREASES FOR 2021, 2022, AND 2023**

TABLE OF CONTENTS

Title	Page
DECISION APPROVING AND ADOPTING SETTLEMENT AGREEMENTS, RESOLVING THE REMAINDER OF DISPUTED ISSUES AND AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY’S GENERAL RATE INCREASES FOR 2021, 2022, AND 2023	2
Summary	2
1. Background.....	2
2. Issues Before the Commission	6
3. Standard of Review	6
3.1. Standard of Review for Settlements.....	7
3.2. Standard of Review for Three Outstanding Disputed Issues.....	7
4. Discussion Overview	8
5. Customers and Sales	8
5.1. Forecasted Number of Customer Meters	8
5.2. Forecasted Consumption per Connection.....	10
5.3. Discussion on Settled Issues Related to Customers and Sales	12
6. Revenues and Rate Design.....	13
6.1. Service Charge.....	13
6.2. Tier Breakpoints and SQR Rates	15
6.3. Monterey Rate Design.....	16
6.4. Southern Division Purchased Water Cost Consolidation.....	18
6.5. Low Income Ratepayer Assistance Program.....	19
6.6. Other Revenue	24
7. Expenses.....	25
7.1. Purchased Water (Acct 704).....	25
7.2. Purchased Power (Acct 726)	27
7.3. Outside Services (Acct 798).....	29
7.4. Rents (Acct 811).....	30
7.5. Regulatory Commission Expenses (Acct 797).....	31
7.6. CA Uncollectible Accounts (Acct 775) [Excluding Leak Adjustments]	33
7.7. Other Administrative & General (A&G) (Accts 792-805).....	33
7.8. Transmission and Distribution (Accts 752-766)	35
7.9. CA Miscellaneous Customer Accounts Expenses (Acct 774)	36
7.10. Operating Expenses for Acquired Systems	37
7.11. Conservation	38
7.12. Leak Adjustments	40

7.13. Planning Studies and System Mapping Expenses.....	42
7.14. Tank Maintenance Expenses.....	43
7.15. Insurance Other Than Group (Acct 793).....	44
7.16. Discussion on Settled Expense Issues	45
8. General Office Allocation	47
9. Labor.....	49
9.1. Wage Escalation.....	50
9.2. Salaries and Wages – Capitalization Rate	51
9.3. Salaries and Wages – New Employees	52
9.4. Supervisor Pay Differential.....	52
9.5. Labor Overtime	53
9.6. Performance Based Compensation	53
9.7. Discussion on Settled Labor Related Issues	54
10. Plant Issues	55
10.1. Los Angeles County District Projects.....	55
10.1.1. Los Angeles County District Undisputed Projects.....	55
10.1.2. Los Angeles County District Disputed Projects	56
10.1.3. Discussion on Los Angeles County District Disputed Projects.....	63
10.1.4. Los Angeles County District Recurring Projects	63
10.2. San Diego County District	65
10.2.1. San Diego County District Undisputed Projects	65
10.2.2. San Diego County District Disputed Project	65
10.3. Ventura County District.....	67
10.3.1. Ventura County District Undisputed Projects.....	67
10.3.2. Ventura County District Disputed Projects	67
10.3.3. Discussion on Ventura County Disputed Projects	70
10.3.4. Ventura County Recurring Projects.....	70
10.4. Central Division District	71
10.4.1. Central Division District Non-Disputed Projects.....	71
10.4.2. Central Division Disputed Projects	72
10.4.3. Discussion on Central Division Disputed Projects.....	79
10.5. Monterey County Wastewater District.....	81
10.5.1. Monterey County Wastewater District Non-Disputed Projects.....	81
10.5.2. Monterey County Wastewater District Disputed Project.....	82
10.6. Sacramento County District.....	83
10.6.1. Sacramento County District Undisputed Projects.....	83
10.6.2. Sacramento County District Disputed Projects	84

10.6.3. Discussion on Sacramento County Disputed Projects	88
10.6.4. Sacramento County Recurring Projects.....	89
10.7. Larkfield District	91
10.7.1. Larkfield District Non-Disputed Projects	91
10.7.2. Larkfield District Disputed Projects	91
10.7.3. Discussion on Larkfield Disputed Projects	94
10.8. Recurring Projects – Corporate General Office.....	94
10.9. Used and Useful Assets.....	95
10.9.1. Facilities Addressed in D.18-12-021.....	95
10.9.2. “TBD” Land Identified in D.18-12-021	96
10.9.3. Discussion on Facilities and “TBD” land identified in D.18-12-021.....	98
10.10. Construction Work in Progress.....	98
11. Taxes.....	100
11.1. Income Taxes.....	100
11.2. Income Taxes – Excess Accumulated Deferred Income Tax.....	101
11.3. Income Taxes – Deferred Taxes in Rate Base – Repairs	101
11.4. Taxes Other Than Income	102
11.5. Discussion on Settled Tax Issues	103
12. Rate Base	104
12.1. Inclusion of Meadowbrook Utility Plan Acquisition Adjustment	104
12.2. Depreciation	104
12.3. Allowance for Working Cash	106
13. Memorandum and Balancing Accounts	107
13.1. Consolidated Expense Balancing Account (CEBA)	107
13.2. NOAA/ESA Memorandum Account	108
13.3. San Clemente Dam Balancing Account	109
13.4. WRAM/MCBA	110
13.5. ESA Memorandum Account.....	111
13.6. School Lead Testing Memorandum Account.....	112
13.7. Two-Way Tax Memorandum Account.....	113
13.8. LIRA Balancing Account.....	114
13.9. California American Water Conservation Surcharge Balancing Account.....	114
13.10. Coastal Water Project Memorandum Account.....	116
13.11. Credit Card Memorandum Account	117
13.12. Water Contamination Litigation Expense Memorandum Account.....	117

13.13.	Catastrophic Event Memorandum Account	118
13.14.	Seaside Basin Adjudication Balancing Account	119
13.15.	Seaside Groundwater Basin Memorandum Account	119
13.16.	Seaside Groundwater Basin Balancing Account	120
13.17.	Group Insurance Balancing Account.....	121
13.18.	Pension Balancing Account	121
13.19.	OPEB Balancing Account.....	121
13.20.	Old Monterey-Style WRAM Balancing Account.....	122
13.21.	Emergency Rationing Costs Memorandum Account	123
13.22.	Purchased Water, Purchased Power and Pump Tax Balancing Accounts	123
13.23.	Monterey Wastewater Purchased Power Expense Balancing Account	124
13.24.	Monterey Cease and Desist Order Memorandum Account.....	124
13.25.	Affiliate Transaction Memorandum Account.....	125
13.26.	GRC Interim Rate True-Up Memorandum Account	126
13.27.	Cost of Capital Interim Rate Memorandum Account.....	127
13.28.	Statewide Non-Revenue Water Action Plan Memorandum Account 127	
13.29.	Monterey Leak Adjustments Memorandum Account.....	128
13.30.	Conservation / Rationing Memorandum Account.....	129
13.31.	Sand City Desalination Plant Purchased Water Balancing Account	129
13.32.	Chromium 6 Memorandum Account.....	130
13.33.	Garrapata Service Area Memorandum and Balancing Accounts....	132
13.34.	Garrapata SDWSRF Loan Repayment Balancing Account	132
13.35.	Monterey One-Way Leak Adjustment Balancing Account	133
13.36.	West Placer Memorandum Account.....	133
13.37.	SGMA Memorandum Account.....	134
13.38.	The Memorandum Account for Environmental Improvement and Compliance Issues for Acquisitions	134
13.39.	Dunnigan Consulting Memorandum Account	135
13.40.	Water-Energy Nexus Program Memorandum Account.....	136
13.41.	Discussion on Memo and Balancing Accounts and CEBA Transfers 136	
13.42.	Request to Close Memo and Balancing Accounts Before Next GRC.....	137
14.	Special Requests	140
14.1.	Southern Division Tariff Area Consolidation	140
14.2.	Catastrophic Event Cost Impact Normalization.....	141

14.3. Acquisition Contingency Memorandum Account	143
14.4. Leak Adjustment Policy and Recovery	145
14.5. WRAM/MCBA Cap	146
14.6. Incentivizing Taxable Grants, Contributions, and Advances.....	147
14.7. Alignment and Simplification of District Specific Tariffs	149
14.8. Meadowbrook Rate Deign Consolidation Deferral	150
14.9. Rate Case Expense Recovery	152
14.10. Subsequent Rate Changes.....	152
14.11. Acquisition Revenue Requirement Normalization.....	153
14.12. Annual Consumption Adjustment Mechanism	156
14.13. Consolidating Conservation Program Statewide	158
14.14. Elimination of Duplicative or Unnecessary Reporting.....	159
14.15. Proposed Operational Tariff Modifications	161
14.16. Lead Service Line Replacement Program	164
14.17. High-Cost Fund for Active Wastewater Customers	165
15. Other Miscellaneous Issues	166
15.1. AMI for Ventura and Central Division Customers	167
15.2. Safety	168
15.3. Water Quality	169
15.4. Customer Service	170
15.5. Regulatory and Statutory Compliance	171
15.6. 100-Day Update for Workpapers	173
15.7. Cap on Surcharges	173
15.8. Earnings Test for Surcharges	174
15.9. San Marino Joint Conservation Program.....	175
15.10. MPWMD User Fee	177
16. Conclusion	178
17. Comments on Proposed Decision.....	180
18. Assignment of Proceeding	180
Findings of Fact.....	180
Conclusions of Law	184
ORDER.....	187
APPENDIX A:	1
APPENDIX B:.....	1
APPENDIX C	1
APPENDIX D:	1

Appendix A – Acronym List

Appendix B – Settlement between California American Water, the Public Advocates Office at the California Public Utilities Commission; and the Cities of Duarte, San Marino, and Thousand Oaks

Appendix C – Settlement between California American Water and Las Palmas Wastewater Committee

Appendix D – Settlement between California American Water and the Monterey Peninsula Water Management District

**DECISION APPROVING AND ADOPTING SETTLEMENT AGREEMENTS,
RESOLVING THE REMAINDER OF DISPUTED ISSUES AND AUTHORIZING
CALIFORNIA-AMERICAN WATER COMPANY'S GENERAL RATE
INCREASES FOR 2021, 2022, AND 2023**

Summary

This decision approves and adopts three settlement agreements, resolves the remaining disputed issues raised by California-American Water Company's General Rate Case Application 19-07-004, and authorizes the utility's general rate increases for 2021, 2022, and 2023. The Commission adopts a revenue requirement of \$271,997,800 for Test Year 2021.¹ The table below illustrates the revenue requirement authorized for the 12 months beginning January 1, 2021, for each of California-American Water Company's Districts:

Ratemaking District	Adopted Revenue Requirement	Percent Change in Revenue Requirement
Northern	\$72,718,400	8.74%
Central	\$72,739,300	5.99%
Southern	\$122,990,800	15.58%
Monterey Wastewater	\$3,549,300	6.79%

This proceeding is closed.

1. Background

On July 1, 2019, California-American Water Company (Cal-Am) filed Application (A.) 19-07-004 to increase revenues in each of its service areas for water and wastewater service for the years 2021 through 2023.² In total,

¹ The revenue requirement approved by this Decision is based on the results generated by Cal-Am's Results of Operations model.

² Cal-Am's divisions and/or districts are currently the Northern Division, Central Division, Monterey Wastewater, Los Angeles County, San Diego County and Ventura County. The
Footnote continued on next page.

A.19-07-004 sought approval to increase Cal-Am's revenue requirements as follows:

- \$25,999,900 or 10.6% in 2021
- \$9,752,500 or 3.59 % in 2022
- \$10,754,500 or 3.82% in 2023

The Public Advocates' Office at the California Public Utilities Commission (Cal Advocates), the City of Duarte, the Central Coast Coalition of Communities for Wastewater Equity, and the Monterey Peninsula Water Management District (MPWMD) filed timely protests.³

The City of Thousand Oaks, the Coalition of Peninsula Businesses, the City of San Marino, the Butterfield-Riviera East Community Association (BRECA), the Pacific Institute for Studies in Development, Environment, and Security, the Las Palmas Wastewater Committee (Las Palmas), and Environment Now were subsequently granted party status.

On August 15, 2019, Cal-Am filed a consolidated reply to all protests. Cal-Am filed its Rule 3.2 Compliance filing on September 2, 2019.

A prehearing conference was held on September 19, 2019, to discuss the issues of law and fact and determine the need for hearing and schedule for resolving the matter. Assigned Commissioner Genevieve Shiroma issued the scoping memo and ruling (Scoping Memo) on November 8, 2019.

Application was filed pursuant to §454 of the Public Utilities Code, Rule 3.2 of the Commission's Rules of Practice and Procedure (Rules), and the Rate Case Plan for Class A Water Companies adopted by the Commission in Decision (D.) 07-05-062. All references to Code in this decision refer to Public Utilities Code unless otherwise noted.

³ On July 29, 2019, Central Coast Coalition of Communities for Wastewater Equality filed a protest. On July 30, 2019, the City of Duarte filed a protest. On August 2, 2019, Monterey Peninsula Water Management District filed a protest. On August 5, 2019, the Public Advocates Office of the Commission filed a protest.

Numerous public participation hearings were held throughout Cal-Am's service territory from December 2019 through February 2020.

On April 6, 2020, Cal-Am filed a motion for interim rate relief, which was granted by an assigned Administrative Law Judge (ALJ) ruling on September 10, 2020.

From September to November of 2020, the parties actively engaged in the Commission's ADR process.⁴ By Decision (D.) 20-12-046, the Commission extended the statutory deadline in this proceeding to September 30, 2021, largely due to COVID-19 related procedural delays.⁵

On December 16, 2020, MPWMD requested that evidentiary hearings in this proceeding be off-calendared, adding that any outstanding disputed issues between it and Cal-Am could be addressed through briefs. On December 21, 2020, the assigned ALJ issued a ruling off-calendaring the previously set evidentiary hearings and setting the schedule for the remainder of the proceeding.

Between January and February of 2021, the parties filed three separate motions for adoption of three separate partial settlements.

Partial Settlement 1: The joint settlement between Cal-Am, Cal Advocates, and the Cities of Duarte, San Marino, and Thousand Oaks (the Settlement);

Partial Settlement 2: The settlement between Cal-Am and MPWMD (Cal-Am-MPWMD Settlement); and

Partial Settlement 3: The settlement between Cal-Am and Las *Palmas* Wastewater Committee (Cal-Am-Las Palmas Settlement).

⁴ Cal-Am Status Conference Statement dated November 16, 2020, at 1-2.

⁵ D.20-12-046 at 2-3.

The *Partial Settlement 1* noted above, including the tariffs and rates provided in it, will collectively be referred to in this decision as the Settlement henceforth. The Settlement incorporates the terms of the other two settlements, *Partial Settlements 2 and 3* above.⁶ The Settlement was updated on February 24, 2021, after the governing bodies for the Cities of Duarte and Thousand Oaks signed it.⁷

On February 18, 2021, MPWMD filed an opening brief as well as comments on the Settlement. Cal-Am filed a reply brief, followed by reply comments to MPWMD's opening comments.

On March 25, 2021, the assigned ALJ issued a ruling seeking additional information on the three settlements and directing Cal-Am to work with the parties to develop a set of joint exhibits and acronym list for the purpose of this proceeding. On April 7, 2021, MPWMD filed a response to the ALJ's ruling, as did the parties to the Settlement.⁸ On April 16, 2021, Cal-Am filed reply comments to MPWMD's response to the ALJ's ruling, along with joint proposed acronym and exhibit lists.

⁶ The parties to the Settlement and Las Palmas clarified this on page 3 of the response to the March 25, 2021, email ruling, which was filed on April 7, 2021. "The schedules included in attachments to the [Settlement] reflect agreements included in the standalone settlement agreements with Las Palmas and Monterey Peninsula Water Management District (MPWMD). Specifically, impacts on revenue requirement and rate design from these standalone settlements are reflected in the summary of earnings comparisons provided in Attachments E-1 and F-1 of the Comprehensive Settlement. Additionally, rates reflecting these settlements are reflected in the exemplary tariffs provided in Attachment G-1 of the Comprehensive Settlement."

⁷ The parties to the Settlement provided an updated signature page and refiled the same settlement terms on February 24, 2021, after the Cities of Duarte and Thousand Oaks formally signed on to the agreement.

⁸ Las Palmas joined the response filed by the parties to the Settlement.

D.21-09-038 extended the statutory deadline in this proceeding to December 31, 2021, to provide additional time for the Commission to fully evaluate the three settlements.

2. Issues Before the Commission

The issues in this proceeding, as identified in the Scoping Memo, are:

1. Whether the Commission should authorize Cal-Am's request for a general rate increase for water and/or wastewater service in its consolidated divisions and/or individual districts;⁹
2. Whether the Commission should approve the 17 Special Requests in the Application;¹⁰
3. Whether the Commission should approve the Advanced Metering Infrastructure (AMI) for Ventura County and Central Division service areas with an estimated cost of \$3.7 million;
4. Evaluate the adequacy of Cal-Am's Customer Service;
5. Evaluate whether Cal-Am follows all statutory and regulatory requirements;
6. Evaluate what impact these rate increases will have on low-income residents and how to best address the impact; and
7. Whether there are any safety issues which the Commission needs to address.

3. Standard of Review

There are three settlements being proposed for approval and adoption in this proceeding. They collectively, however, do not fully resolve all disputed issues in this proceeding. The three outstanding disputed issues are:

⁹ Included in this issue is the analysis of the reasonableness of Cal-Am's proposed rates and revenue requirements, capital investments, and whether the evidence supports these requests.

¹⁰ Specific discussion of these special requests is provided in Section 14, *infra*.

1. The Sand City desalination plant (within Project I15-400123);
2. The statewide-recovery of the Larkfield District wildfire recovery and future catastrophic event costs; and
3. The allocation of the utility plant acquisition adjustment (UPAA) for Cal-Am's acquisitions of Fruitridge Vista, Rio Plaza, and Hillview.

3.1. Standard of Review for Settlements

Pursuant to Rule 12.1(d), the Commission will only approve settlements that are reasonable in light of the whole record, consistent with the law, and in the public interest. Proponents of a settlement agreement have the burden of proof of demonstrating that the proposed settlement meets the requirements of Rule 12.1 and should be adopted by the Commission.¹¹

3.2. Standard of Review for Three Outstanding Disputed Issues

As for the three outstanding disputed issues, Cal-Am bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.¹² The applicant, likewise, "has the burden of affirmatively establishing the reasonableness of all aspects of its application. Intervenors do not have the burden of proving the unreasonableness of [the utility's] showing."¹³

¹¹ D.12-10-019 at 14-15; D.09-11-008 at 6.

¹² In the Rate Case Plan for Class A Water Utilities (D.04-06-018), the Commission stated that: "A utility's application for a rate increase must identify, explain, and justify the proposed increase." (D.04-06-018, Appendix at 5.) The application must be supported by testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

¹³ D.06-05-016 at 7.

4. Discussion Overview

The following sections of this decision examine each of the settled and disputed issues in the scope of this proceeding. Our discussion concerning the three disputed issues can be found in Section 10.4.2 and 10.4.3, regarding the Sand City desalination plant (Project I15-400123); Section 14.2, regarding the normalization of the Larkfield District wildfire recovery and related catastrophic event costs; and Section 14.12, regarding the allocation of the utility plant acquisition adjustment (UPAA) for Cal-Am's acquisitions of Fruitridge Vista, Rio Plaza, and Hillview.

5. Customers and Sales

Cal-Am made various requests in its application as it relates to forecasted customers and sales.¹⁴ Cal Advocates reviewed Cal-Am's requests and proposed several recommended adjustments.¹⁵ The Settlement ultimately reached compromises on these issues, as discussed below.

5.1. Forecasted Number of Customer Meters

Cal-Am's customer count forecast took into consideration that portions of Monterey County District have been and remain under a growth moratorium. Therefore, Cal-Am held customer counts for these areas flat to 2018 for this GRC. Additionally, Cal-Am included the acquisition of Rio Plaza, Fruitridge, Hillview

¹⁴ For specific details on customer meters see, *Cal-Am's Update to General Rate Case Application*, filed October 14, 2019 (Application 100-Day Update), Attachment 1, Ch. 3, at 1, Tables 3.1 – 3.6 at 86-93, 208-215, 312-319, 427-434, 564-571, 686-693, 799-806. For specific details on consumption see, Application 100-Day Update, Attachment 1, Ch. 3, at 1, Tables 3.1 – 3.6 at 86-93, 208-215, 312-319, 427-434, 564-571, 686-693, 799-806; also For specific details regarding forecasted number of customer meters see Exhibit CAW-2 at 4-15; Exhibit CAW-5 at 5-6; Exhibit CAW-7 at 2-3, Exhibit CAW-11 at 9-11, and Exhibit CAW-24 at 10-12. For forecasted consumption per connection see Exhibit CAW-6 at 101-109, Exhibit CAW-7 at 2-3, Exhibit CAW-11 at 11-12, Exhibit CAW-20 at 40-41, Exhibit CAW-21 at 1-4, Exhibit CAW-24 at 10-12, and Exhibit CAW-25 at 32-41.

¹⁵ Exhibit CalPA-10 2-2 to 2-11, 2-11 to 2-22, and 3-12.

and Bellflower in these forecasts, which created a one-time customer increase associated with its three recently-acquired service areas and its proposed acquisition of the Bellflower district.¹⁶

Cal Advocates made several recommended changes,¹⁷ to which Cal-Am did not agree.¹⁸

Rather than further litigating this issue, the Settlement provides as follows:

- A. For the projected meter count, Cal-Am and Cal Advocates agree to utilize the meter count as of December 31, 2018, for the basis and Cal-Am's methodology in the Results of Operations Model (RO Model) to calculate total projected meter counts;
- B. All residential meter growth will be in 5/8x3/4 to 1-inch residential fire protection services (RFPS) and non-residential meter growth will be allocated based on December 31, 2018, recorded meter allocation;
- C. Residential Fire Protection Services (RFPS) will be projected by adding the average five years growth to the existing number of meters;¹⁹
- D. Consistent with efforts to accurately reflect meter distribution in acquisition systems as identified in Cal-Am's rebuttal, and to incorporate impacts of flat-rate to metered-rate conversion efforts and length of service (LOS) meter changeouts in the newly acquired Fruitridge service territory, Cal-Am shall incorporate actual meter counts in step rate advice letter filings for escalation years 2022 and 2023; and
- E. Cal-Am will incorporate meter counts based on actual number of meters by meter size as of September 30th of the

¹⁶ Exhibit CAW-11 at 9-10.

¹⁷ Exhibit CalPA-2 at 6-10.

¹⁸ Exhibit CAW-24 at 10-12.

¹⁹ The projected number of customer meters by size are set forth in Attachment A-2 of the Settlement.

filing year (*i.e.*, September 30th, 2021, for 2022 step filing and September 30th, 2022, for 2023 step filing). Pursuant to the standard escalation methodology adopted in the Rate Case Plan, incorporation of Fruitridge meter count will not impact authorized revenue requirement in the step rate filings, but only allocation of that authorized revenue requirement.²⁰

5.2. Forecasted Consumption per Connection

Cal-Am set forth its forecasted consumption per connection in its testimony and forecasted the number of customer meters by using the average of recorded meter counts for December 31, 2017, and December 31, 2018, then applying a 50% weighting factor to the annual meter growth in year 2019, and then adding the total annual projected growth to forecast years 2020 and 2021.²¹

Cal Advocates asserted that Cal-Am over-forecasted water consumption per connection for TY 2021, which resulted in over-forecasted revenue from variable charges. Cal Advocates noted this will result in Cal-Am collecting more of its revenue from surcharges, while providing notice of only a fraction of the bill impacts customers will likely experience during this GRC cycle.²²

Cal Advocates stated that, in D.04-06-018, the Commission provided specific guidance for forecasting water consumption for the test year. For most districts, Cal Advocates asserts that Cal-Am utilizes a consultant-developed consumption forecast by customer class.²³ For Meadowbrook, Garrapata,

²⁰ Per the transitional rate design for Fruitridge Vista, as included in the general rate case (GRC) filing, the pre-acquisition rate design will be maintained, and rates will be increased by 9% annually from 2019 through 2023. The transitional rate design was not opposed by Cal Advocates in the GRC proceeding.

²¹ Exhibits CAW-6 at 108-109; Exhibit CAW-11 at 11-12.

²² Exhibit CalPA-10 at 2-11 to 2-12.

²³ Exhibit CalPA-10 at 2-12 to 2-13.

Dunnigan, and the four acquired systems, however, Cal Advocates notes the consultant did not have enough historic data for its econometric model, so Cal-Am used other assumptions detailed in Exhibit CAW-11.

Further, Cal Advocates stated that Cal-Am's sales forecast for TY 2021 generally utilizes an econometric model that takes into consideration numerous factors known to influence consumption.²⁴ Cal-Am contested the assertions made by Cal Advocates.²⁵

The Settlement provides a compromise for Cal-Am's forecasted consumption per connections, as described below:

- A. Cal-Am shall use a lower rebound percentage consistent with the direct testimony of Cal Advocates and rebuttal testimony of Cal-Am;
- B. For all districts, the rebound percentages initially proposed by Cal-Am in forecasting 2021 consumption will be reduced by two percentage points. For example, the 9% rebound percentage for the Northern Districts will be reduced to 7% consistent with Cal Advocates' testimony. The rebound percentage in the Central District of 4% will be reduced to 2%, and the rebound percentage in the Southern Districts of 7% will be reduced to 5% consistent with Cal-Am's Rebuttal Testimony; and
- C. Cal-Am and Cal Advocates agree to this approach for all districts and customer classes except for the residential customer class in the Duarte, Ventura, and Central Satellite districts, where demand will be set at the 50% drought rebound forecast provided in the rebuttal testimony of

²⁴ Exhibit CalPA-10 at 2-15 to 2-22.

²⁵ Exhibit CAW-20 at 40-41; Exhibit CAW-21 at 1-14; Exhibit CAW-24 at 10-12; and Exhibit CAW-25 at 32-41.

David Mitchell, and the Monterey district where residential demand will be set based on 2019 actual.²⁶

For the Monterey District, Cal-Am reached a partial settlement with MPWMD related to sales forecasting. In that settlement, the two parties agreed the 2019 actual consumption should be used to determine the sales per connection forecast, and that the 2019 residential consumption by tier and non-residential consumption by division should be used to establish tariff rates in the final decision. Cal-Am and MPWMD further agreed that the utility's GRC implementation advice letter (AL) and tariff rates shall reflect consumption from the approved 2021 Annual Consumption Adjustment Mechanism (ACAM) advice letter.²⁷

5.3. Discussion on Settled Issues Related to Customers and Sales

We have reviewed the record of this proceeding concerning forecasting number of customer meters and consumption per connection in each of Cal-Am's divisions and find that the Settlement reaches compromises on these issues that are reasonable in light of the whole record, consistent with law, and in the public interest. The agreements reached in the partial Cal-Am-MPWMD Settlement are incorporated in the Settlement's terms, and Cal-Am shall reflect the agreed-upon forecasts for number of customer meters and consumption per connection in its implementation AL for this GRC.²⁸ Cal-Am shall not recover any costs

²⁶ Attachments A-3 and A-4 in the Settlement Agreement presents the consumption per connection and total consumption respectively for each service area.

²⁷ Cal-Am-MPWMD Settlement at 13.

²⁸ Parties to the Settlement response to March 25, 2021 ALJ Ruling, filed on April 6, 2021, at 3. The parties that filed this response were the same as those that signed on to the Settlement agreement, and they collectively stated that the schedules included in the Settlement Agreement reflect the agreements reached in the Cal-Am-MPWMD and Cal-Am-Las Palmas settlements.

associated with its proposed acquisition of the Bellflower Municipal Water System in this GRC cycle, because that application is still pending Commission review.²⁹

6. Revenues and Rate Design

Rate design translates a company's approved revenue requirement into rates paid by customers. There are four main variables which determine commodity rates for each ratemaking area. They are 1) Usage; 2) Tier Breakpoints; 3) Number of Tiers; and 4) Step-Ups in Commodity Charges.³⁰ To determine how much revenue Cal-Am will collect at each tier, it is necessary to determine the percent of total water consumption for each district that is projected to happen at each tier. Cal-Am made various requests in its application as it relates to revenues and rate design,³¹ and Cal Advocates proposed several changes to Cal-Am's proposed rate designs. The Settlement provides compromises on each of these issues, as discussed below.

6.1. Service Charge

Cal-Am proposed to eliminate the separate Residential Fire Protection Service (RFPS) meter charges and add a meter-based sur-credit to simplify its tariffs and charge an appropriate rate for customers that upsize due to fire code regulations.³² Cal-Am also noted that RFPS rates have not been increased through rate design as its regular rates have been. In Special Request Number 15,

²⁹ Cal-Am's A.18-09-013 requests approval to purchase the Bellflower Municipal Water System.

³⁰ Step-ups in commodity rates are the difference between the rates at each tier in the tiered-rate system.

³¹ For specific details on Cal-Am's requests related to revenues and rate design, *see its Application 100-Day Update Chapter 3 and Attachment 1, Chapter 10.*

³² Exhibit CAW-5 at 118-120; Exhibit CAW-7 at 5-13; Exhibit CAW-11 at 46-55; and Exhibit CAW-24 at 24-36.

Cal-Am requested to charge RFPS customers based on actual meter size and provide them with a meter-based sur-credit to simplify the bills. This issue is addressed in Section 14.15, *infra*.

Cal Advocates argued that Cal-Am failed to justify its proposed shift in the fixed/commodity revenue collection ratio and suggested several changes but agreed to Cal-Am's request to increase revenue collection from meter charges.³³

Cal-Am disagreed with Cal Advocates recommendations, but instead of litigating these issues, the Settlement provides as follows:

- A. Cal-Am will collect 30% of its revenue requirement from meter charges in the Northern and Central Divisions;
- B. Cal-Am will collect 20% of its revenue requirement from meter charges in the Southern Division (San Diego and Ventura);
- C. Cal-Am's proposed meter ratios for Monterey County, as set forth in the tables depicted in the Settlement Agreement, are agreed to by the settling parties;³⁴ and
- D. Cal-Am's proposal to include RFPS in the meter charge calculation using the midpoint meter ratios is agreed to by the settling parties.³⁵

D.16-12-026 provides guidance for rate design regarding the ratio of meters (fixed) to commodity (quantity-based, variable) charges. As the Commission noted in that decision, water utility fixed costs comprise about 70% of total costs, and that an increase in fixed charges could (1) reduce water utilities' reliance on quantity charges to collect authorized revenues; and (2) consequently decrease the amounts necessarily recovered from their

³³ Exhibit CalPA-10 at 1.3 to 1.4; 4.1 to 4.8; and 5.37.

³⁴ Settlement at 8.

³⁵ Settlement at 7-9.

Water Revenue Adjustment Mechanism (WRAM) or surcharges.³⁶ D.16-12-026 directed all Class A and Class B water utilities to consider shifting up to 50% of their water rate collection to fixed charges.³⁷

We have reviewed the record of this proceeding concerning meter charges and RFPS and find that the parties have made a fair and reasonable compromise on these issues. The Settlement's provisions related to the meter charges in Cal-Am's service territories align with a broader effort to gradually adjust service charges to recover an increased amount through fixed charges, which could reduce WRAM balances, result in cost-based rates, and improve bill predictability. We therefore find these terms reasonable in light of the whole record, consistent with law, and in the public interest.

6.2. Tier Breakpoints and SQR Rates

Cal-Am requested specific tier break points and Standard Quantity Rate (SQR) Ratios in the Northern, Southern, and Central Divisions based on parameters from a settlement with Cal Advocates in another proceeding, A.10-07-007.³⁸

Cal Advocates proposed three different options for determining percentage of water use by tier across Cal-Am's service territory, by analyzing data from the following timeframes: 2015-2018; 2017-2018; and 2018 alone. Cal Advocates recommended a general methodology for setting tier breakpoints, with some different considerations for the Monterey, Duarte, and

³⁶ D.16-12-026 at 55-57.

³⁷ *Ibid.* at 8-9.

³⁸ Exhibits CAW-7 at 6-11, CAW-11 at 39-53 and Attachment 5 and CAW 21 at 25-27.

Central Satellite districts, and suggested a five-tiered rate structure for Monterey County and a four-tiered rate structure for all other districts.³⁹

Cal-Am noted that a delay in a prior GRC decision prevented implementation of a new rate design for Sacramento customers until May 2019.⁴⁰ Cal-Am found the current rate design, as approved in D.18-12-021, is having the intended effect of reducing consumption and argued that the existing rate design for Northern Division is effective, based on customer feedback, and should remain in place for this GRC cycle.

Instead of litigating these issues further, the Settlement provides a compromise that reflects the rate design proposed in Cal-Am's Direct and Rebuttal Testimony with adjustments so that median usage customers (and below) experience no more than the average system wide increase in rates. The tables in the Settlement, Section 4.2, illustrate the agreed-upon tier break points and SQR Ratios for the Northern, Southern, and Central Divisions.⁴¹

We have reviewed the record of this proceeding concerning Cal-Am's SQR ratios and tier break points and find that the Settlement's terms are reasonable in light of the whole record, consistent with law, and in the public interest. Cal-Am shall provide information regarding the new rate design on its website and provide bill inserts explaining the new rate design for high-usage customers that may experience higher rates under the new tier structures.

6.3. Monterey Rate Design

MPWMD supported Cal-Am's proposed removal of the 5th tier of rates and asserted that water usage in the upper tiers has dropped by nearly 70% over the

³⁹ Exhibit CalPA-10 at 4.12.

⁴⁰ Exhibit CAW-24 Section 6 at Attachment 5.

⁴¹ Settlement at 11-12.

past 10 years, thereby attaining the goal of reducing consumption from the highest users. The Settlement proposes no changes to the non-residential rate design in the Monterey District but provides the following agreements on residential rate design:

- A. Elimination of the fifth tier for residential single- and multi-family tariffs;
- B. Maintenance of the existing single-family block widths for both Tier 1 and Tier 2 at 4.0 centum cubic feet (ccf) or 29.9 100-gallon increments (CGLs);
- C. Maintenance of the existing multi-family block widths for both Tier 1 and Tier 2 at 2.5 ccf or 18.7 CGLs;
- D. The Tier 4 break point for single and multi-family tariffs shall be set to ensure approximately 5% of the consumption for the respective rate classes;
- E. The Tier 3 break point aligns with keeping 5% of the consumption in Tier 4;
- F. Tier rate ratios for Tiers 1 through 4 shall be set at 1.0, 1.5, 4.0, and 6.0, respectively;
- G. The gap between the current ratio used to develop the meter rates and the standard meter ratios shall be closed by 50%; and
- H. The meter charge shall recover 30% of Cal-Am's revenue requirement in the Monterey District.

We have reviewed the record of this proceeding concerning the tier break points and SQR ratios for the Monterey District and find that the parties have made fair and reasonable compromises on this issue. We further find these terms reasonable in light of the whole record, consistent with law, and in the public interest. Cal-Am shall provide information on its website and outreach through billing inserts that explain the new rate design to high-usage customers

in the Monterey District that may experience higher rates under the new tier structures.

6.4. Southern Division Purchased Water Cost Consolidation

Cal-Am testified that it is time to move away from considering water as a local issue and view it from a higher, more consolidated level to better provide its customers water for basic needs at a reasonable price. Cal-Am also stated that it must be able to signal the need to conserve to those that use large quantities of water for non-essential uses. Cal-Am argued that creating a larger Southern tariff area will help provide reasonable pricing for all customers while encouraging conservation.⁴²

In conjunction with the broader Southern Division tariff area consolidation proposal outlined in Special Request #1, which is discussed in detail in Section 14.1, *infra*, Cal-Am proposed to consolidate purchased water costs of the Southern Division with any non-consolidated purchased water costs remaining in the identified district.

Cal Advocates outlined various scenarios including consolidating more than 50% of purchased water into the Southern Division's revenue requirement for Baldwin Hills and/or San Diego.⁴³ Cal-Am offered no rebuttal on Cal Advocates' proposals.

The Settlement adopts Cal-Am's request for partial purchased water cost consolidation in the Southern Division with minor adjustments and recommends

⁴² Exhibit CAW-6 at 13-38 and Attachment 4 and Exhibit CAW-20 at 42-56. Further discussion of Special Request #1 is included in Section 13.1 below.

⁴³ Exhibit CalPA-10 at 5.3-5.20 and Attachments 2 and 6.

that the same methodology should be used in filing any purchased water offsets for the Southern Division.⁴⁴

We have reviewed the record in this proceeding and find that the parties have made compromises on this issue that are reasonable in light of the whole record, consistent with law, and in the public interest. Cal-Am is authorized to partially consolidate purchased water costs in its Southern Division, as agreed to in Section 4.3 of the Settlement.

6.5. Low Income Ratepayer Assistance Program

Cal-Am's Low Income Ratepayer Assistance (LIRA) Program provides a 20% discount on the service charge as well as the quantity rate for Tier 1 and Tier 2 in all service areas except for Monterey.⁴⁵ For Monterey, the discount is 30% and is applicable to Tiers 1 through 2.⁴⁶ Cal Advocates recommends that the Commission authorize Cal-Am to continue its LIRA, or Customer Assistance Program (CAP).⁴⁷

Under the Settlement, Cal-Am would be authorized to continue its existing CAP program, which provides a 20% discount on the meter charge and tier 1 and 2 volumetric charges for all districts except the Monterey District. For the Monterey District, a discount of 30% would be applied on the meter charge and volumetric charges for customers in tiers 1, 2, and 3. Previously, the Monterey District's CAP discount applied to the meter charge and the volumetric charges

⁴⁴ Settlement at 12-13.

⁴⁵ The Commission directed Cal-Am to change the name of the LIRA program to Customer Assistance Program, or CAP, to align with the United States Environmental Protection Agency nomenclature. (D.20-08-047 at 79-80 and Ordering Paragraph 4.)

⁴⁶ Exhibit CAW-10 at 20.

⁴⁷ Exhibit CalPA-10 at 4.27 and 4.29.

for tiers 1 through 4. The Settlement provides that, with the recommended elimination of the 5th tier, it is appropriate to apply the discount to the first three tiers, because consumption in the 4th tier under the proposed rate design would be similar to the to-be-eliminated 5th tier. Thus, it would be appropriate to apply the CAP discount only to the first three Monterey District tiers in this GRC cycle.

The Cal-Am-MPWMD Settlement and MPWMD's comments on the Settlement are silent on the issues related to the CAP.

The Settlement separately addresses the Hardship Assistance Program, which Cal-Am has administered in the Monterey District at no cost to ratepayers in the past.⁴⁸ Cal-Am proposed to expand its Hardship Assistance Program, which has been administered with shareholder funds in cooperation with a local United Way office in Monterey, to a statewide program. Cal-Am proposed to expand the Hardship Assistance Program to other service territories, working with other local United Way offices and to recover 50% of the statewide program's cost. The Settlement adopts this proposal as described further in Exhibit CAW-10.⁴⁹

MPWMD argued that it is opposed to subsidies between customers and service regions, in general, and suggested the impacts of Cal-Am's proposed CAP expansion cannot be evaluated with the information Cal-Am provided in testimony.⁵⁰ MPWMD raised concerns about the potential rate impacts to

⁴⁸ Monterey's Hardship Assistance Program was initially grant-funded with \$50,000 and provides up to \$1,000 per customer if they face a water service shut-off due to non-payment, based largely on income related criteria. The program costs have not previously been recovered from ratepayers.

⁴⁹ Exhibit CAW-10 at 21-22.

⁵⁰ Exhibit MPWMD-3 at 14-15.

customers in the Monterey District if Cal-Am is authorized to recover up to 50% of the costs of the statewide Hardship Assistance Program from ratepayers.

MPWMD stated that while it does not oppose the program in concept, Cal-Am's proposal would be a new burden to ratepayers, because the program has historically been provided through grants and shareholder funding. MPWMD requested relief from any increased ratepayer impacts associated with offering the Hardship Assistance Program in its district and/or other Cal-Am California service districts.⁵¹

Cal-Am clarified that the total ratepayer-funded portion of the Hardship Assistance Program for this GRC cycle is \$37,300 per year for the Central Division.⁵²

The costs the Central Division will see in 2021-2023, related to the Hardship Assistance Program, are reflected in the Settlement Agreement in the Operation Expense line item under Operation & Maintenance Expense as provided in the Comparative Summary of Earnings tables provided in Attachments E-1 (for statewide) and F-1 (by division).⁵³

We are not persuaded by MPWMD's request to exclude customers in the Monterey District from contributing to the CAP and Hardship Assistance Program, because Monterey District customers receive benefits from the availability of Cal-Am's customer assistance programs.

We have reviewed the record of this proceeding as it relates to these issues and find that the compromise reached in the Settlement related to the statewide expansion of the CAP, the extension and expansion of the Hardship Assistance

⁵¹ MPWMD response to March 25, 2021, ALJ Ruling at 10.

⁵² Cal-Am response to MPWMD comments on the March 25, 2021, ALJ Ruling at 4.

⁵³ *Ibid.*

Program, and the associated cost recovery are fair. The Settlement prudently considered the rate impacts and financial burdens the proposal would have on each of Cal-Am's service territories, including the Monterey Service District. We agree with Cal-Am that spreading the costs of the statewide program across a broader customer base will minimize the impact to each ratepayer, and that Monterey District customers can benefit from this cost-sharing effort if there is a catastrophic disaster or other unexpected service impacts to customers in that District.⁵⁴ We therefore find the Settlement's terms on Cal-Am's customer assistance programs reasonable in light of the whole record, consistent with law, and in the public interest.

Accordingly, Cal-Am should expand its CAP to its service territories across California, may recover up to 50% of the costs associated with it from ratepayers and modify its CAP program to align with the terms of the Settlement. Cal-Am should also ensure its expanded CAP program aligns with the criteria set forth in D.11-05-020, as modified by D.21-07-029.⁵⁵ D.21-07-029 requires Class A water utilities to participate in a series of data reporting working sessions sponsored by the Commission's Water Division, to review and collaborate toward reconciling, refining and devising a consistent and clear set of requirements for reporting billing and collections data, which are being required

⁵⁴ *Ibid.*

⁵⁵ D.11-05-020 permitted but did not require sharing low-income customer information among regulated water and municipal energy utilities; took notice of existing data sharing programs between Commission-regulated energy utilities and municipal irrigation and water districts; and addressed data transfer methods, obtaining customer authorization, and methods to ensure the security and privacy of customer information. (At 10-11; Finding of Fact 7 and 8; and Attachment #1.)

pursuant to the decision and the ongoing evaluation of water affordability in Rulemaking (R.) 17-06-024.⁵⁶

Further, D.21-06-015 directed the regulated energy utilities to identify whether “new water-related measures and technologies can be added to the [Energy Savings Assistance] program” and to “conduct no-cost/low-cost campaigns to include information about low income water programs in their existing ME&O efforts.”⁵⁷ Similarly, D.21-07-029 requires Commission-regulated energy utilities to expand their exchange of low-income consumer data with water systems statewide in an effort to increase water affordability and move toward a unified statewide low-income water rate assistance program.⁵⁸

Likewise, Cal-Am shall continue its collaboration with Commission-regulated energy utilities to ensure customers that have enrolled in low-income energy programs are aware of the CAP program, the Hardship Assistance Program, and any other assistance programs Cal-Am offers to support low- and moderate-income customers to reduce water consumption and otherwise lower their water bills.⁵⁹

⁵⁶ D.21-07-029 at 68-70.

⁵⁷ D.21-06-015 at 441.

⁵⁸ D.21-07-029 at 31-32.

⁵⁹ D.20-08-047 directs all Class A water utilities to share data with electric investor-owned utilities related to customer enrollment in low-income programs. In its Advice Letter 1333, filed on April 1, 2021, CAW proposed to conduct this data sharing effort quarterly starting in 2022.

6.6. Other Revenue

Other Revenue sources include, but are not limited to Method 5 Revenues, Contract Revenues, Miscellaneous Revenues, Rents, and Private Fire Protection Services.⁶⁰

Cal Advocates asserted that Cal-Am should have used a five-year average of recorded data for Other Revenues, suggested that this miscellaneous revenue should be forecasted by increasing the 2018 recorded amount by the same percentage as Cal-Am's requested revenue requirement, and stated that Cal-Am failed to provide justification for its calculated Other Revenues.⁶¹

Cal-Am argued that it is inappropriate to use escalation factors intended for use on expenses to forecast revenue categories and an increase in revenue requirement does not necessarily lead to an increase in miscellaneous revenues.⁶² Cal-Am agreed that the revenues from the unmetered Sacramento customer should be included in Other Revenues, but that the contract provides for a set monthly amount that will not increase over the life of the contract.

The Settlement proposes to forecast Other Revenues (excluding Method 5 revenues) based on recorded 2018 revenue for antenna leases, a three-year recorded average (2016-2018) for Miscellaneous Revenue, and inclusion of \$62,771 per year to account for Cal-Am's contractual agreement with the Sacramento unmetered customer.⁶³

⁶⁰ D.87-09-026 requires Class A water utilities to use what is called Method 5 to account for the applicable tax on contributions and advances; Application 100-Day Update, Ch. 3, Tables 3.16 - 3.22, (PDF) pp. 12, 14, 16, 18, 20, 22, 24, 86-87, 103-128, 208-209, 225-239, 312-313, 329-353, 427-428, 446-468, 564-565, 581-604, 686-687, 706-729, 799-800, 817-841 and also CAW Exhibit 11 at 16 and 24 at 15-20.

⁶¹ Exhibit CalPA-10 at 3.9.

⁶² Exhibit CAW-24 at 15-20.

⁶³ Settlement at 14.

We have reviewed the record of this proceeding concerning Cal-Am's Other Revenues forecasts and find that the parties reached compromises on these issues that are reasonable in light of the whole record, consistent with law, and in the public interest. Cal-Am shall forecast its other revenues based on recorded revenues pursuant to the agreements reached in the Settlement. Method 5 revenues associated with new developments shall be forecasted as described in Section 14.11, *infra*.

7. Expenses

Cal-Am estimated TY 2021 Operations and Maintenance (O&M) and Administrative and General (A&G) expenses at \$109,451,588.⁶⁴ In the last five years (2014-2018), Cal-Am recorded an average increase of 1.36% annually in total O&M and A&G expenses.⁶⁵ Cal-Am's proposed budget of \$109,451,588 results in an average increase of approximately 5.45% annually from the last recorded year (2018).⁶⁶ Cal Advocates proposed several changes to Cal-Am's proposed expenses to be recovered in this GRC cycle. The Settlement provides compromises on these issues, as discussed below.

7.1. Purchased Water (Acct 704)

Cal-Am's purchased water forecast for 2021 and 2022 is based on estimated total water production, district operations, assessments of sources and uses of produced and purchase water, the current prices and assessments from

⁶⁴ CAW workpaper "ALL_CH04_O&M_RO" under sheet titled "Summary of Costs - NARUC WS11" in row: 103.

⁶⁵ CAW workpaper ALL_CH04_O&M_RO" sheet titled "Summary of Costs - NARUC WS11" in row 103. Average of percentage increase each year from 2014 to 2018.

⁶⁶ CAW workpaper "ALL_CH04_O&M_RO" under sheet titled "Summary of Costs - NARUCWS11" in row: 103, where year 2018 is \$94,068,954 and TY 2021 is \$109,451,588. Percentage increase is $(\$109,451,588 - \$94,068,954) / \$94,068,954$ which is 16.35% for three years (2018-2021). Forecasted percentage increase per year is $16.35\% / 3 \text{ years} = 5.45\%$.

water provider agencies, except for the Central Division, for which Cal-Am has historically recorded Seaside Basin Wastewater costs in the purchased water account.⁶⁷ The costs projected for TY 2021 were calculated by multiplying either 2018 or 2019 water rates with total forecasted water production for each water wholesaler in all districts except Monterey, which utilizes a recorded five-year inflated adjusted average.⁶⁸

Cal Advocates suggested Cal-Am's TY 2021 purchased water forecast is unreasonable, because it does not account for increases in water rates during the period between the time the initial Application was filed and the TY, which under-forecasts purchased water rates. Cal Advocates suggested this methodology may result in the illusion of a smaller increase in rates in the GRC, while customers ultimately experience surcharges which increase their bills.⁶⁹

To provide a more accurate forecast of purchased water costs, Cal Advocates recommended the Commission raise Cal-Am water rates by the average annual

⁶⁷ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.3 (PDF) at 32-33, 137-138, 249-250, 362-363, 478-479, 614-615, 739-740, and 852-853; Exhibit CAW-11 at 17-18; and Exhibit CAW-22 at 7-12.

⁶⁸ Water rates refers to purchased water rate Cal Am pays to its water wholesalers. This is identified in CAW's workpaper "ALL_CH04_O&M_WP_Purchased Water" for TY 2021; *see also* Attachment 02: Cal-Am's response to Data Request ("DR") ANU 001 Q005b, Cal Am provides corrected numbers for total purchased water for Monterey/central division. Cal-Am changed forecast from \$1,159,958 to \$1,147,505 (decrease of \$12,453) in TY 2021 in workpaper "Cal PA ANU 01 Sec 01 Q005 Attachment 1. The forecasted costs also reflect the Marina Coastal Wheeler fee, the five-year average of Watermaster assessment costs, and the purchased water contains costs related to the Sand City Desalination plant, as described in Exhibit CAW-11 at 17 and CAW Workpapers at Chapter 4.

⁶⁹ Exhibit CalPA-6E (Public) at 4. Cal Advocates noted that in 2014-2018, CAW customers have seen an average annual rate increase of 3.69%.

percentage increase in purchased water rates experienced over the past five years (2014-2018).⁷⁰

Cal-Am argued that Cal Advocates' proposed methodology is not consistent with the Revised Rate Case Plan for Class A Water Utilities.⁷¹

Rather than litigating this issue, the Settlement provides as follows:

- A. Cal-Am will adopt Cal Advocates' methodology to include projected wholesale purchased water rate increases in the estimated TY 2021 Purchased Water expense, with the exclusion of purchased water expenses related to the Pure Water Monterey Purchased Water Agreement;
- B. Future purchased water offsets related to Pure Water Monterey Purchased Water Agreement in the Monterey Main service area will be implemented via purchased water offset with a separately identified surcharge;
- C. No additional escalation shall be included for escalation years 2022 and 2023; and
- D. Wholesale water offsets for 2022 and 2023 will be implemented via offset advice letters as authorized by Pub. Util. Code § 792.5 and General Order (GO) 96-B.

7.2. Purchased Power (Acct 726)

Cal-Am calculated its purchased power expenses forecast using an estimate of total kilowatt hour (kwh) usage multiplied by the cost per kwh for each district by the 2018 kwh usage data, divided by 2018 production to determine a kwh per ccf metric for each district. Cal-Am's calculated metric was then applied against the estimated water production quantities in 2021 and 2022

⁷⁰ Exhibit CalPA-6E (Public) at 5. Any year-on-year water rate increase of 100% and higher are excluded from the calculated five-year average, as being unlikely to be recurring and are considered as one-time increase.

⁷¹ Exhibit CAW-22 at 7-12.

to develop total kwh usage in those years and costs were escalated for each year of the rate case cycle.⁷²

Cal Advocates suggested that Cal-Am under-forecasted purchased power expenses, resulting in higher than necessary surcharges, and that the Commission should require Cal-Am to provide a more accurate and reasonable forecast.⁷³

Cal-Am disagreed, arguing that Cal Advocates made a calculation error in its year-over-year percentage increases to the power rates.⁷⁴

Rather than to litigate this dispute, the Settlement provides as follows:

- A. Cal-Am will adopt Cal Advocates' forecasting methodology of escalating the 2018 power rates by the average annual percentage increase in power rates experienced over the past five years (2014 - 2018);
- B. Cal-Am will incorporate the correction identified in Cal-Am's rebuttal testimony regarding the calculation of the year-over-year percentage increases to the power rates; and
- C. The final Purchased Power expense forecast will be based on authorized production.⁷⁵

⁷² Application 100-Day Update, Attachment 1, Ch. 4, Table 4.3 (PDF) pp. 32-33, 137-138, 249-250, 362-363, 478-479, 614-615, 739-740, 852-853; Exhibit CAW-11 at 18-19. 2018 data was used because it contained the most up to date pricing from power providers when CAW's exhibits were filed.

⁷³ Exhibit CalPA-6E (Public) at 2, 5-7, and Attachment 1.

⁷⁴ Exhibit CAW-22 at 12-13.

⁷⁵ Settlement at 16-17.

7.3. Outside Services (Acct 798)

Cal-Am calculated the forecasted Outside Services expense using a five-year (2014 - 2018) inflation adjusted average of recorded data.⁷⁶ Cal Advocates suggested that some of the historical expenses Cal-Am used to build its forecast are either no longer required, unlikely to be incurred in this GRC cycle, or were miscategorized, and should therefore be removed from Cal-Am's forecast.⁷⁷

Cal-Am disagreed with each of Cal Advocates' assertions, except for the recommended removal of miscategorized recorded regulatory expense items, an adjustment for which was already reflected in Cal-Am's 100-Day Update.⁷⁸

The Settlement provides as follows:

- A. Cal-Am shall adopt Cal Advocates' recommendation to remove recorded costs for the Los Padres Dam Long Term Study;
- B. Cal-Am shall retain the costs for arc-flash studies in the recorded expenses as originally proposed by Cal-Am;
- C. Cal-Am shall remove the miscategorized recorded regulatory expense agreed to in Cal-Am's rebuttal testimony and incorporated into its 100-Day Update submittal; and
- D. Cal-Am shall adopt a Temporary Employee expense forecast of \$88,250 based on increased headcount, which represents a compromise between Cal-Am's forecast of \$98,940 and Cal Advocates' forecast of \$77,570.⁷⁹

⁷⁶ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.5 (PDF) at 36-37, 141-142, 253-254, 366-367, 482-483, 618-619, 743-744, 856-857; Exhibit CAW-9 at 29-30; Exhibit CAW-22 at 14-15.

⁷⁷ Cal Advocates Exhibit 6E (Public) at 2, 7-11 for a complete list of expenses that Cal Advocates should be eliminated, and Attachment 1.

⁷⁸ CAW Exhibit 22 at 14-15.

⁷⁹ Settlement at 18-19. A table detailing the differences between CAW and Cal Advocates' positions and the compromises reached is included in Section 5.3 of Appendix B.)

7.4. Rents (Acct 811)

Cal-Am used a five-year inflation adjusted average (2014-2018) to estimate the rents in all of its districts, with exceptions for actual lease costs associated with (1) the corporate office in San Diego, (2) the legal office in San Francisco, and (3) the operations center in Imperial Beach. Lease agreements for the corporate office and Imperial Beach operations center are consistent with expenses included in the last GRC. The lease agreement for the legal office in San Francisco includes an expansion of 571 square feet, which Cal-Am contends is necessary to facilitate the increased workload for the legal department.⁸⁰ Rent expenses requested for Account 811 also include an adjustment of \$231,000 related to Cal-Am's corporate headquarters interim transition plan and a forecasted rent expense of \$48,000 for the administration and operations office building for Hillview Water Company.⁸¹

For TY 2021, Cal-Am's forecasted rents consist of office leases, equipment leases, and headquarter relocation costs that may not be incurred in 2021, and Cal-Am requested a total relocation budget of \$553,600 in this GRC cycle although the current lease for its headquarters does not expire until 2024.⁸²

Cal Advocates argued the Commission should deny this request because if Cal-Am's relocation budget is approved in this GRC cycle, ratepayers may fund rent for a redundant facility for four years. Cal Advocates proposed a rents

⁸⁰ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.5 (PDF) at 36-37, 141-142, 253-254, 366-367, 482-483, 618-619, 743-744, 856-857; Exhibit CAW-3 at 243-245; Exhibit CAW-9 at 31-32, Exhibit CAW-14 at 11; Exhibit CAW-17 at 34; and Exhibit CAW-22 at 15-16.

⁸¹ Cal-Am desires to conduct a study on relocation of its corporate headquarters from San Diego to Sacramento (Exhibit CAW-14 at 11 and CAW-17 at 34 include additional information on the headquarter move proposal.)

⁸² Exhibit CalPA-6E (Public) at 2 and 11-15.

account forecast of \$1,942,108 in TY 2021, which removes Cal-Am's proposed headquarters relocation costs of \$411,600 and one-time equipment leases from recorded years, which would reduce the TY 2021 forecast by \$7,494.⁸³

Cal-Am described progress on the proposed corporate headquarters relocation and described the need for relocation of employees in the Sacramento Beloit facility.⁸⁴ Cal-Am further disagreed with the removal of single-entry equipment leases.⁸⁵

The Settlement provides several compromises regarding the Rents Account 811, as follows:

- A. Cal-Am will not include lease expenses and capitalized tenant improvements relating to the proposed corporate headquarters relocation plan in the forecasted Rents expense for TY 2021, but instead will include such expenses, if such are incurred, in a future GRC;
- B. Cal-Am shall retain recorded single-entry lease expenses in the recorded expenses used for the forecast; and
- C. Cal-Am shall remove the miscategorized recorded regulatory expense agreed to in Cal-Am's rebuttal testimony and incorporated into Cal-Am's 100-Day Update submittal.⁸⁶

7.5. Regulatory Commission Expenses (Acct 797)

Account 797 includes all expenses incurred by Cal-Am for formal cases before regulatory commissions, other regulatory bodies, or cases where Cal-Am

⁸³ Exhibit CalPA-6E (Public) at 11-15

⁸⁴ Exhibit CAW-17 at 34.

⁸⁵ Exhibit CAW-22 at 15-16.

⁸⁶ Settlement at 19-20. A table detailing Cal-Am's request, Cal Advocates' initial recommendations, and the settlement amounts for Rents is included in Section 5.4 of the Appendix B.

is a party.⁸⁷ In this GRC, Cal-Am initially sought a total Account 797 expense budget of \$5,192,979 for three years (2021-2023), or \$1,730,993 per year if amortized equally, based on an evaluation of historical proceedings, rates for outside counsel and consultants, and costs associated with printing and mailing customer notices.⁸⁸

Cal Advocates noted that Cal-Am's request would amortize its proposed budget over 27 months rather than the standard 36 months, that Cal-Am's recorded five-year average of similar expenses in 2014-2018 is 40% lower than its TY 2021 forecast, and that Cal-Am's forecast is approximately three times higher than other Class A water utilities.

Cal-Am disagreed with Cal Advocates.⁸⁹ However, rather than litigate these issues, the Settlement provides the following compromises:

- A. Cal-Am shall use the three-year recorded inflation adjusted average from the last completed GRC cycle (2015-2017) as the baseline for the forecasted TY Regulatory Commission expense;
- B. From this baseline figure, Cal-Am will add an additional incremental expense for consulting expenses incurred in the current GRC cycle (2018-2020) that were not incurred in the last completed GRC cycle; and
- C. Based on this methodology, Cal-Am and Cal Advocates agree to adopt a total forecasted Test Year 2021 Regulatory Commission expense of \$1,500,060.⁹⁰

⁸⁷ Cal-Am noted that some of the proceedings it is involved in include many intervenors such as environmental groups, governmental agencies, and other groups, and that outside counsel and regulatory consultants are sometimes hired by Cal-Am.

⁸⁸ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.5 (PDF) at 36-37, 141-142, 253-254, 366-367, 482-483, 618-619, 743-744, 856-857; Exhibit CAW-9 at 24-29; Exhibit CAW-22 at 16-27.

⁸⁹ Exhibit CAW-22 at 16-27.

⁹⁰ Settlement at 20-22.

7.6. CA Uncollectible Accounts (Acct 775) [Excluding Leak Adjustments]

Cal-Am forecasted the uncollectible expenses to be tracked in Account 775 by using a five-year (2014 - 2018) average of the annual uncollectible rate and multiplying the calculated historical uncollectible rate by forecasted revenues. Further modifications to this calculation were made to account for the removal of leak adjustments as part of Special Request #4, which is discussed in detail in Section 14.4, *infra*.⁹¹

Cal Advocates argued that the calculations in Cal-Am's RO Model did not match the methodology identified by Cal-Am in its direct testimony, and instead recommended an uncollectible rate of 0.5117%.⁹²

The Settlement adopts Cal Advocates' proposed uncollectible rate of 0.5117%.⁹³

7.7. Other Administrative & General (A&G) (Accts 792-805)

To develop its forecasted costs for Other Administrative & General (A&G) Accounts (Accts 792-805), Cal-Am used an inflation adjusted five-year average (2014 - 2018), adjusted for costs relating to sampling and monitoring system (SAMS) modules, transportation leases, and incremental expenses related to acquisitions of the Rio Plaza, Fruitridge Vista, Hillview Water, and Bellflower Municipal Water systems.⁹⁴

⁹¹ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.3 (PDF) at 32-33, 137-138, 249-250, 362-363, 478-479, 614-615, 739-740, 852-853 and CAW Exhibits 9 at 12-13 and 22 at 27; Exhibit CAW-9 at 13.

⁹² Cal Advocates Exhibit 6E at 3, 21 and Attachment 1.

⁹³ Exhibit CAW-9 at 13; Settlement at 22-23.

⁹⁴ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.5 (PDF) at 36-37, 141-142, 253-254, 366-367, 482-483, 618-619, 743-744, 856-857; Exhibit CAW-9 at 12-13 and 29-30; and Exhibit CAW-22 at 27.

Cal Advocates recommended certain reductions to the A&G Miscellaneous General expenses relating to: (1) transportation leases based on new annual leases; (2) certain recorded SAMS costs to avoid double recovery of those costs; and (3) removal of customer satisfaction radio expenses from the recorded costs including a reduction of the recorded California Public Radio expenses by 50%. Finally, Cal Advocates suggested certain State Water Resources Control Board (SWRCB) drinking water fees should have been recorded at Account 766 and should therefore be removed from this A&G request for Accounts 792-805.⁹⁵

Cal-Am largely disagreed with Cal Advocates' contentions but agreed to remove the identified SAMS costs and to re-categorize the recorded SWRCB drinking water fees expenses.⁹⁶ Instead of litigating these issues, the Settlement provides as follows:

- A. \$2,623,000 for transportation leases, based approximately on a sum of (1) anticipated future 2021 commitments of \$2,375,000 related to leases effective as of December 31, 2018, and (2) 2.5 years (2019, 2020, and half of 2021) of new commitments at a rate of \$99,387 per year;
- B. Recorded SAMS expenses identified above should be removed from recorded costs and the recorded SWRCB fees should be re-categorized to Account 766;
- C. 50% of customer satisfaction radio expenses and 50% of recorded California Public Radio expenses should be removed from Cal-Am's request; and
- D. Incremental expenses related to the Bellflower acquisition should only be included if that acquisition is ultimately approved by the Commission.⁹⁷

⁹⁵ Exhibit CalPA-6E at 3, 21, 22-23, and Attachment 1.

⁹⁶ Exhibit CAW-22 at 27-34, 37, and Confidential Attachments 1 and 2.

⁹⁷ Settlement at 23-24.

7.8. Transmission and Distribution (Accts 752-766)

Cal-Am forecasted Transmission and Distribution expenses using a recorded five-year (2014 - 2018) inflation-adjusted average with deviations from this methodology for estimated SWRCB drinking water fees.⁹⁸ Deviations from the five-year average methodology for SWRCB expenses were based on new fee schedules adopted in September of 2017.⁹⁹

Cal Advocates testified that the methodology used in Cal-Am's RO Model to forecast SWRCB drinking water fees does not match Cal-Am's testimony and that the modeling results disproportionately increase the forecast. Cal Advocates suggested that certain recorded costs for global positioning system (GPS) equipment should be removed as an expense and instead capitalized, and that any recorded expenses beyond one standard deviation should be fully removed from the requested costs. Additionally, Cal Advocates alleged that some SWRCB drinking water fees were wrongly recorded and should be reclassified to Account 766.¹⁰⁰

Cal-Am argued that Cal Advocates' five-year average methodology for the SWRCB drinking water fees would diminish the impact of the fee structure change that occurred in late 2017. Cal-Am also disagreed with Cal Advocates' methodology to exclude expense outliers that lie outside one standard deviation. However, Cal-Am agreed with Cal Advocates that certain GPS expenses should

⁹⁸ Excludes Planning Studies and System Maps expense, Planning Studies expense and Tank Maintenance expense, each of which are addressed in separate sections below.

⁹⁹ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.4 (PDF) at 34-35, 139-140, 251-252, 364-365, 480-481, 616-617, 741-742, 854-855, Exhibit CAW-3 at 240-261 and Attachment 3, Exhibit CAW-9 at 10-12, 22 at 35-36, and Exhibit CAW-9 at 11-12.

¹⁰⁰ Exhibit CalPA-6E at 2, 28-29, 37-38, and Attachment 1.

have been capitalized and that certain wrongly-recorded SWRCB drinking water fees should be reclassified.¹⁰¹

The Settlement proposes to adopt Cal-Am's methodology for Transmission and Distribution expenses with respect to SWRCB drinking water fees and standard escalation for all other miscellaneous items included in this account. The Settlement also proposes to capitalize the GPS expenses identified by Cal Advocates and to reclassify the wrongly-recorded SWRCB drinking water fees identified by Cal Advocates.¹⁰²

7.9. CA Miscellaneous Customer Accounts Expenses (Acct 774)

Cal-Am presented specific requests for CA Miscellaneous Customer Accounts expenses using a five-year recorded average, based on expenses in 2014 - 2018.¹⁰³

Cal Advocates asserted that Cal-Am's methodology did not account for declining postal expenses and suggested a reduction from Cal-Am's initial request.¹⁰⁴

Cal-Am agreed that the original estimate of postage expense of \$890,499 is not justified by recent recorded expenses but disagreed with Cal Advocates' argument that the declining trend will continue.¹⁰⁵ Cal-Am recommended a revised postal expense forecast of \$750,000, based on Cal-Am's approximate two-year recorded expenses from 2018 (\$753,500) to 2019 (\$745,400).

¹⁰¹ Exhibit CAW-22 at 35-36.

¹⁰² Settlement at 24-25.

¹⁰³ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.3 (PDF) at 32-33, 137-138, 249-250, 362-363, 478-479, 614-615, 739-740, 852-853; Exhibit CAW-9 at 12-13 and Attachment 3.

¹⁰⁴ Exhibit CalPA-6E at 3, 30-31, Attachment 1, and 39.

¹⁰⁵ Exhibit CAW-22 at 36-37.

Rather than litigating this issue, the Settlement adopts a TY 2021 postal expense of \$750,000 based on Cal-Am's approximate two-year recorded expenses from 2018 - 2019.¹⁰⁶

7.10. Operating Expenses for Acquired Systems

Cal-Am's Application included a deviation in its forecast to account for additional operating expenses related to the authorized or pending acquisitions of Rio Plaza, Fruitridge Vista, Hillview, and Bellflower water systems.¹⁰⁷

Cal-Am found that Cal Advocates excluded certain forecasted costs related to acquired systems' operating expenses in its RO Model and eliminated all Bellflower-related operating expenses. Cal-Am disagreed with Cal Advocates' RO Model and identified the deviations with each of the adjustments.¹⁰⁸

Rather than litigating these issues, the Settlement provides as follows:

- A. Adopt Cal-Am's forecasted incremental operating expenses for Fruitridge Vista, Rio Plaza, and Hillview acquisitions as reflected in Cal-Am's 100 Day Update; and
- B. Remove incremental operating expenses for the Bellflower system to reflect the Proposed Decision in Cal-Am's Bellflower acquisition proceeding A.18-09-013 issued on March 30, 2020. However, if the final decision in proceeding A.18-09-013 instead authorizes Cal-Am to acquire the Bellflower system, then the final decision in this GRC shall include the incremental operating expenses for the Bellflower system.¹⁰⁹

¹⁰⁶ Settlement at 26-28.

¹⁰⁷ Application 100-Day Update, at. 4-5, 133, 245, 359, 408, 419-420, 427, 474, 527, 534, 550, 554-556, 564, 610, 670-671, 735, 848, 904-905; Exhibit CAW-5 at Section VII; Exhibit CAW-9 at 50-69; Exhibit CAW-11 at Section IV, V, and XI.

¹⁰⁸ Exhibit CAW-22 at 41-45.

¹⁰⁹ Settlement at 28.

7.11. Conservation

Cal-Am requested \$5,950,305 as a three-year conservation budget for all districts but suggested that amount could be reduced to \$4,957,453, if the Commission approves Special Request #13 of this GRC, which seeks to consolidate the conservation budgets on a statewide basis.¹¹⁰ Cal-Am detailed its current conservation efforts, proposed cost recovery for conservation efforts, and the anticipated impacts of California's New Conservation Framework (Senate Bill 606 and Assembly Bill 1668).¹¹¹

Cal Advocates argued Cal-Am should include its conservation budget and associated revenue requirements in base rates and the associated revenue requirements; certain staff positions should be removed from the conservation budget to avoid double counting; and the three-year conservation budget should be \$1,315,524 per year to incorporate those proposed adjustments.¹¹²

MPWMD suggested that it (1) has broad authority to define conservation regulations in its service territory and (2) should continue to have a separate conservation budget, particularly because the proposed Monterey Peninsula Water Supply Project is unlikely to be operational by TY 2021.¹¹³ Similarly, San Marino noted its significant efforts to achieve conservation and concerns that funding a statewide conservation budget could adversely impact customer rates in the San Marino district.¹¹⁴

¹¹⁰ Application 100-Day Update, Attachment 1, (PDF) at 179-187, 190-196, 293-304, 521-549, 656-676, 783-787, 898-901.

¹¹¹ CAW Exhibit 10 at 2-15.

¹¹² Exhibit CalPA-6E at 2, 32-33, and 90-91.

¹¹³ Exhibit MPWMD-2 at 3-17 and Attachment 1.

¹¹⁴ Exhibit San Marino-1 at 3-5.

Cal-Am noted Cal Advocates' recommendation to include conservation budget in base rates would conflict with its Special Request #13, which would authorize Cal-Am to shift funding across years and districts.¹¹⁵ Cal-Am addressed the staff double-counting issue in its 100-Day Update submittal by removing the conservation labor from its labor forecast, leaving these expenses as part of the conservation budget.¹¹⁶

Again, rather than litigating this issue, the Settlement provides that:

- A. Cal-Am shall include conservation positions in the labor forecast and remove them from the conservation budget;
- B. Cal-Am shall include the conservation budget in base rates at the General Office level with allocation to the District level based on non-contested conservation budgets;
- C. Cal-Am will have flexibility and discretion to utilize its authorized conservation budget where needed, and within the three-year rate case cycle, similar to other forecasted capital or expense budgets. The Monterey District is the sole district where the approved conservation funding will need to be spent within that district only;
- D. Cal-Am shall eliminate the conservation funding surcharge and close the California American Water Conservation Surcharge Balancing Account effective December 31, 2020;
- E. Any trailing interest charges associated with the Conservation Surcharge Balancing Accounts up to approval of the GRC implementation advice letter filing will be transferred to the Consolidated Expense Balancing Account (CEBA); and

¹¹⁵ See, CAW Exhibit 23 at 2-9.

¹¹⁶ *Ibid.* at 3.

F. The issue of whether conservation budgets can be used to pay for such penalties and fines will be deferred to a future GRC or a separate industry-wide proceeding.¹¹⁷

MPWMD opposed Cal-Am's proposal, and the agreements reached in the Settlement related to conservation expenses, based on concerns that the settlement may result in cost shifting to customers in the Monterey District.

7.12. Leak Adjustments

If a Cal-Am customer experiences a leak on the customer side of the meter, its water usage could be charged at the highest tier rate without the customer's knowledge, which could result in an unexpectedly high monthly bill.¹¹⁸ Leak adjustments are issued by Cal-Am to individual customers at the discretion of Cal-Am staff.¹¹⁹ Cal-Am forecasted TY 2021 leak adjustment expenses based on recorded 2018 data and estimated approximately \$2.7 million in TY 2021 leak adjustments, if its request to implement Advanced Metering Infrastructure (AMI) is adopted, or \$3.25 million in TY 2021 leak adjustments if its request to implement AMI is denied.¹²⁰

Cal Advocates recommended reducing Cal-Am's forecast of TY 2021 leak adjustment expenses and suggested that, because leak adjustments can elevate Cal-Am's corporate image, shareholders should cover 50% of the forecasted leak adjustment costs.¹²¹

¹¹⁷ Settlement at 29-30.

¹¹⁸ Exhibit CAW-2 at 11.

¹¹⁹ Exhibit CalPA-10 at 5-20.

¹²⁰ Application 100-Day Update, Attachment 1, (PDF) at 104, 107, 110; Exhibit CAW-2 at 10-14 and Attachment 1; Exhibit CAW-9 at 35-48 and Attachments 7 and 9; Exhibit CAW-16 at 4-7; Exhibit 20 at 70-72; and Exhibit CAW-22 at 67-68.

¹²¹ Exhibit CalPA-6E at 34-36 and Attachments 42 and 43; Exhibit CalPA-10 at 5.20 to 5.23.

MPWMD suggested the recovery of leak adjustments through the WRAM would not provide sufficient disclosure of how leak adjustment costs impact ratepayers' bills and that the Commission should, where appropriate, move cost recovery into base rates rather than bill adders.¹²²

Cal-Am argued that the company follows a clear set of criteria in compliance with a Commission approved leak adjustment policy and argued that leaks and the associated adjustments can lead to negative press. Cal-Am also suggested that, if the Commission wants to require recovery of leak adjustments to be reviewed within its GRC, the costs should be evaluated and forecasted as part of Cal-Am's revenue requirements.¹²³

Rather than litigating this issue, the Settlement provides as follows:

- A. Cal-Am's proposed \$2.7 million leak adjustment forecast, based on 2018 adjustments, is consistent with revised leak adjustment policy and therefore a 7% reduction is unnecessary at this time;
- B. A statewide leak adjustment forecast of \$2.7 million is consistent with Cal Advocates not opposing AMI implementation and removal of the 5th tier in the Monterey District;
- C. The \$2.7 million statewide leak adjustment forecast should be included in base rates for test year 2021 and any leak adjustments provided to customers that are inconsistent with Cal-Am's established policy will not be recovered in rates;
- D. The utility's leak adjustment policy is appropriate and should be continued given the ongoing water supply constraints and steeply inclining tier block rate design for the Monterey District;

¹²² Exhibit MPWMD-2 at 3-9; Exhibit MPWMD-3 at 6-7.

¹²³ Exhibit CAW-22 at 67-68.

- E. The leak adjustment costs for the Monterey District should be included in base rates at an amount of \$2.70 million if the rate design and AMI requests are adopted as proposed by Cal-Am, or \$3.25 million if those proposals are rejected; and
- F. If the actual leak adjustments costs in 2021-2023 are lower than the amount authorized in base rate, the difference should be tracked in the Consolidated Expense Balancing Account (CEBA) and returned to customers.

Cal-Am's request to recover leak adjustment expenses should be recorded in the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA) and Cal Advocates' response are addressed separately in the discussion of Special Request #4 in Section 14.4, *infra*.

7.13. Planning Studies and System Mapping Expenses

Cal-Am's application included forecasted Planning Studies expenses relating to Urban Water Management Plans (UWMP), Water Infrastructure Act (WIA) – Risk Assessments and Emergency Response Plans, the Wildfire Risk Assessment and Emergency Plan, the Corporate Headquarters Transition and Relocation Study, the Ventura Water Storage Tank Seismic Study, the Ventura Supervisory Control and Data Acquisition (SCADA) Master Plan, the Ventura Integrated Water Supply Master Plan, the Ventura Solar Power Study for Tank Sites, the Ventura Calleguas Municipal Water District Peak Study, the Ventura Turnout Pressure Regulating Valves Hydropower Study, the Monterey SCADA Master Plan, the Los Angeles Water Storage Tank Seismic Study, the Los Angeles

Well Master Plan, the San Diego Alternative Source of Supply Study, and system mapping activities.¹²⁴

Cal Advocates recommended Cal-Am prepare a Portable Generator Planning Study to consider alternatives other than installing stationary generators using internal Cal-Am resources and should not require additional planning study expenses.¹²⁵

Cal-Am initially disagreed with Cal Advocates' recommendations, but as discussed in Section 10, *infra*, the Settlement provides for Cal-Am to prepare a Portable Generator Planning Study to consider alternatives other than installing stationary generators at an estimated cost of \$50,000 per Division, or \$150,000 total.¹²⁶ The costs would be included as a planning study expense in TY 2021.

7.14. Tank Maintenance Expenses

Cal-Am proposed a tank maintenance and improvement program that included painting expenses and inspections by outside consultants.¹²⁷

Although Cal Advocates did not take a position on the prudence or reasonableness of the projects Cal-Am proposes to complete in 2023, Cal Advocates recommended adjustments to the tank maintenance budgets for Lower Wikiup Tank #1 and North Wikiup Tank #2 to account for overlap with capital improvements already included in the Tank Rehabilitation and Seismic Upgrades

¹²⁴ Application 100-Day Update, Attachment 1, (PDF) at 132, 244, 473, 609, 734, and 847; Exhibit CAW-3 at 240-257 and Attachment 3.

¹²⁵ Exhibit CalPA-9C at 20-25.

¹²⁶ Settlement Sections 8.1.10, 8.3.2, 8.4.6, and 8.7.4. Planning Studies and System Mapping budgets are provided in Attachment B-6 of the Settlement.

¹²⁷ Application 100-Day Update, Attachment 1, (PDF) at 132, 244, 473, 609, 734, and 847; Exhibit CAW-3 at 258-261, and CAW Exhibit 17 at 1-3. The consultants would compile studies that provide details on the integrity and condition of the tank inspected, when they should be inspected next, and estimates of project costs.

capital project in Larkfield. Cal Advocates further stated the tank maintenance expense for the Upper Wikiup Tank #1 should be disallowed, as this tank was destroyed in the Tubbs fire, and Cal-Am's proposed Industrial Tank #2 budget is unnecessary because the most recent inspection showed no improvements were needed.¹²⁸

The Settlement proposes to adopt Cal Advocates' recommended Tank Maintenance Expense adjustments and disallowances.¹²⁹

7.15. Insurance Other Than Group (Acct 793)

Cal-Am developed its proposed Insurance Other Than Group (IOTG) forecasts based on historical incurred costs, increased by standard escalation factors. The exception to this was its forecasted property insurance, which was increased by escalation factors provided by the company's insurance broker.¹³⁰ Cal-Am proposed additional funding of \$4.225 million for the instant GRC period, 2021-2023, to procure earthquake insurance coverage for underground assets that do not reside on fee simple parcels or properties. The proposed earthquake policy would pay out based on the magnitude earthquake and the size of the loss sustained.¹³¹

Cal Advocates opposed the requested earthquake insurance policy as unreasonable for the following reasons: (1) Cal-Am's Northern and Central Divisions have lower risks of significant earthquakes; (2) the proposed

¹²⁸ Exhibit CalPA-5 at 5-8.

¹²⁹ Exhibit CAW-17 at 1-3 for specific reductions and increases in budget as recommended by Cal Advocates. Adjusted tank maintenance projects and budgets are provided in the Settlement at 32-33 and Attachment B-5.

¹³⁰ Exhibit CAW-9 at 20-22 and Exhibit 22 at 37-40 and Attachment 3.

¹³¹ Exhibit CAW-9 at 21.

insurance policy would not cover most earthquakes; and (3) the policy will not adequately mitigate the potential financial risks associated with significant earthquakes in Cal-Am's Southern Districts. Cal Advocates recommended the Commission deny funding for the earthquake insurance policy premium.¹³²

Cal-Am argued that Cal Advocates' analysis is solely based on historical earthquakes and argued that the Commission should also consider other factors such as distance of the site(s) from the earthquake and other seismological information to project potential maximum expected ground motions.¹³³

The Settlement removes Cal-Am's request for recovery of earthquake insurance premiums in this GRC but reserves Cal-Am's ability to make a similar request in a subsequent proceeding.¹³⁴

We have reviewed the record of this proceeding concerning Cal-Am's IOTG Account 793 forecasts and find that the Settlement reached compromises on these issues that are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall not recover the requested costs of earthquake insurance during this GRC cycle but may make similar requests in future GRC applications.

7.16. Discussion on Settled Expense Issues

We find the Settlement provides compromises on the expense related issues detailed above that are reasonable in light of the whole record, consistent with law, and in the public interest.

Purchased water expenses related to the Pure Water Monterey Purchased Water Agreement are not reflected in the summary of earnings comparisons, as

¹³² Exhibit CalPA-9C at 9-20.

¹³³ Exhibit CAW-22 at 37-40 and Attachment 3.

¹³⁴ Settlement at 33-34.

these costs are collected through a separately identified surcharge and not through base rates.¹³⁵ However, the current effective purchased water surcharge for the Pure Water Monterey Purchased Water Agreement is reflected in the exemplary tariffs provided in Attachment G-1 of the Settlement, and Cal-Am shall keep this surcharge in place with the new rates that will take effect after this decision.¹³⁶

Cal-Am shall implement the purchased power forecasts and terms related to its Outside Service Account 798, Regulatory Commission Expenses Account, CA Uncollectible Accounts (excluding leak adjustments), Transmission and Distribution Accounts, Operating Expenses for Acquired Systems, CA Miscellaneous Customer Accounts, Tank Maintenance Expenses, and Insurance Other Than Group Account 793 as provided in the Settlement. Cal-Am shall use an uncollectible rate of 0.5117% for this GRC cycle.

Regarding Cal-Am's Rents Account 811, Cal-Am shall not recover any costs associated with its corporate headquarters relocation during this GRC cycle, as agreed upon in the Settlement. Regarding Cal-Am's A&G Accounts 792-805 and Operating Expenses for Acquired Systems, we reiterate that The Commission's review of Cal-Am's proposed Bellflower acquisition is ongoing and no incremental operating expenses related to that system are authorized at this time.

Further, we find MPWMD's continued concerns related to the Settlement's conservation budget to be unfounded, because the Settlement terms explicitly include a provision to ensure the Monterey District budget is solely utilized

¹³⁵ Joint response to the ALJ's March 25, 2021 Ruling at 2.

¹³⁶ *Ibid.*

within the Monterey service area. Therefore, Cal-Am shall ensure that the conservation budget allocated for the Monterey District is only expended on projects in that district and may maintain flexibility to shift its line item budgets within the Monterey District budget. The three-year budget for Cal-Am's other districts may be shifted across line items budget and other districts as necessary, pursuant to the agreements reached in the Settlement.

Cal-Am shall close its Leak Adjustment Balancing Account and continue tracking its leak adjustment costs and revenues through its CEBA, as discussed further in Section 14.4, *infra*, and more details regarding Cal-Am's recovery of costs related to SAMS is included in Section 15.3, *infra*.

We have reviewed the record of this proceeding concerning Cal-Am's planning studies and find that the Settlement's compromises are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am will fully evaluate the alternatives to installing costly stationary generators at many of Cal-Am's facilities throughout its service territories, with the goal of reducing the cost of providing back-up power to critical infrastructure. We find this agreement related to a preliminary study across all options for back-up generation resources to be reasonable prior to authorizing a large expenditure of ratepayer funds for stationary, gas-fired generators to be installed in multiple locations. Cal-Am is not precluded from seeking additional funding for back-up generation resources in a future GRC should the study identify the need for higher-cost back-up power generators at one or more locations.

8. General Office Allocation

For ratemaking purposes, each of Cal-Am's districts receive an allocation of General Office (GO) office costs related to Cal-Am's corporate offices and American Water Works Service Company (AWWSC). AWWSC is an affiliate of

Cal-Am that provides administrative and technical services to both regulated and market-based enterprises.

Cal-Am allocated a portion of GO costs and labor to its affiliate Hawaii American Water Company (HAWC).¹³⁷ Cal-Am's workpapers indicate the hours worked in Hawaii are treated as capitalized hours and the projected costs associated with HAWC labor were removed from the forecasted Cal-Am revenue requirement because the capitalization percentage was applied to labor and labor-related expenses.

Cal Advocates recommended several specific adjustments to Cal-Am's proposed allocation of GO expenses to account for services being provided to Cal-Am's affiliate HAWC and suggested that Cal-Am's GO 2021 and 2022 utility plant in service balance for ratemaking purposes should be reduced by \$2.9 million and \$3.2 million, respectively.¹³⁸

Cal-Am argued that the appropriate allocation of labor expenses is incorporated in its RO Model.¹³⁹

The Settlement sets forth compromises on this issue, including a requirement for Cal-Am to provide (1) all employees information and expanded training pertaining to the process and importance of accurately recording time for cost allocation purposes and (2) the following specific details about its GO expenses in its next GRC:

- A. A copy of the information provided to all employees pertaining to recording time and cost allocation;

¹³⁷ CAW's GRC Application Minimum Data Requirement (MDR) II.I.1 at 3.

¹³⁸ Exhibit CalPA-8 at 7.

¹³⁹ Exhibit CAW-22 at 48-51.

- B. A summary of employee time recorded to operations outside of California-regulated operations for the period 2019-2021; and
- C. A detailed summary of the specific GO expenses and assets that are appropriately allocated to operations outside of California-regulated operations.¹⁴⁰

We have reviewed the record of this proceeding concerning Cal-Am's GO Allocation and find that the parties have reached compromises on this issue that are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall track and report more details regarding its employees' time and cost allocation, include information about its employee time budgeting education materials, and summarize the GO allocation of employee time, company assets, and other expenses, when filing its next GRC.

9. Labor

For TY 2021, Cal-Am estimated total labor expenses at \$27,711,722.¹⁴¹ For ratemaking purposes, Cal-Am forecasts labor expenses to increase more than 20% by TY 2021 and its number of employees will increase by about 9%.¹⁴² Cal Advocates proposed several changes to Cal-Am's proposed labor expenses

¹⁴⁰ Settlement at 34-35.

¹⁴¹ This was described in Cal-Am's workpaper "ALL_CH04_O&M_RO_Labor" under sheet titled "Labor Costs W-Spec Adj WS7" under row: 503. Cal-Am's workpaper "ALL_CH04_O&M_RO_Labor" under sheet titled "Sum of Costs - District WS10" under row: 78: An average percentage increase in labor expenses from years 2014 to 2018 is 0.876%; *see also* Cal Am's workpaper "ALL_CH04_O&M_WP_Labor" under sheet titled "Employee Count WS-A-11" under row: 77. An average percentage increase in recorded employees from 2014 to 2018 is 1.956%.

¹⁴² Cal-Am's workpaper "ALL_CH04_O&M_RO_Labor" under sheet titled "Labor Costs W-Spec Adj WS7" under row: 503. Increase from year 2020 (\$26,986,188) to TY 2021 (\$27,711,722) is 3%. Increase from year 2018 (\$26,3030,823) to TY 2021 (\$27,711,722) is 22%; Cal-Am's workpaper "ALL_CH04_O&M_WP_Labor" under sheet titled "Employee Count WS-A-11" under row: 77. Increase from year 2018 (296) to TY 2021 (322.4) is about 9% which is 3% annually (from 2018 to 2021).

and forecasts. The Settlement provides compromises on each of these issues, as discussed below.

9.1. Wage Escalation

For TY 2021, Cal-Am estimated total payroll and wages by escalating 2020 hourly wages using union or non-union annual increases of 2.50% or 3.00% respectively.¹⁴³ Cal-Am forecasted employee payroll for 2021 by indexing the 2019 payroll by the union contract agreement rate of 2.5% for per year for union employees.

Cal Advocates recommended using the same wage escalation rates for both union and non-union employees of 2.25% in 2020 and 2.50% in 2021 which would reduce Cal-Am's TY 2021 payroll and wages budget by approximately \$186,688.¹⁴⁴

Cal-Am argued that Cal Advocates' recommendation would disregard the wage escalation factors utilized in separately negotiated labor agreements and any additional premiums included in union agreements that are not available to non-union employees.¹⁴⁵

The Settlement provides the following compromises on the above issues:

- A. Cal-Am shall utilize an escalation factor for union employees based on the negotiated agreements as

¹⁴³ Cal Am's workpaper "ALL_CH04_O&M_WP_Labor" under sheet titled "INP -Labor Benefits." Non-union employees include: Hourly Non-Union Employees and Basic Salaried Employees. Also, CAW Exhibit 9 at 17 and Application 100-Day Update, Attachment 1, Ch. 4, (PDF) at 28, 36-37, 44-45, 131, 141-142, 149-150, 243, 253-254, 263-264, 357, 366-367, 376-377, 472, 482-483, 492-493, 608, 618-619, 626-627, 733, 743-744, 753-754, 846, 856-857, 868-869; CAW Exhibit 5 at 61-64 and Attachments A and B; CAW Exhibit 9 at 14-23, and Exhibit 19 at 3-5 and Attachments 1-4.

¹⁴⁴ Exhibit CalPA-6E at 41-42.

¹⁴⁵ Exhibit CAW-19 at 3-5.

- provided in Cal-Am's 100-Day Update submittal and the Rebuttal Testimony of Garry Hofer in Exhibit CAW-19;
- B. Cal-Am shall apply the union escalation factors (both escalation increases and timing of increases) similarly to union-equivalent employees based in non-union service areas;
 - C. For purposes of determining authorized revenue requirement, and for ratemaking purposes, Cal-Am shall exclude non-union salary increase of 3% annually effective with the date of this Settlement Agreement through December 31, 2021, in response to the COVID-19 pandemic and the associated economic challenges; and
 - D. Cal-Am shall continue salary escalation for both union and non-union employees in its 2022 and 2023 step filings.¹⁴⁶

9.2. Salaries and Wages – Capitalization Rate

Cal-Am used estimated capitalization rates for salaries and wages, based upon a three-year historical average from 2016-2018, to allocate total compensation between expensed and capitalized salaries and payroll costs.¹⁴⁷

Cal Advocates asserted that the 14% capitalization rate that was hardcoded in Cal-Am's RO Model did not match the three-year average (10%) stated in Cal-Am's testimony.¹⁴⁸ Cal-Am argued that Cal Advocates' application of the methodology was erroneous.¹⁴⁹

Rather than litigating this issue, the Settlement adopts Cal-Am's proposed methodology for the capitalization rate for salaries and wages based on the three-year historical average from 2016-2018.

¹⁴⁶ Settlement at 35-36.

¹⁴⁷ Exhibit CAW-9 at 19-20.

¹⁴⁸ Exhibit CalPA-6E at 45.

¹⁴⁹ Exhibit CAW-22 at 53-55.

9.3. Salaries and Wages – New Employees

Cal-Am anticipated a total of 26 additional positions. This includes 10 positions hired after 2015, nine positions related to acquisition of the Fruitridge and Hillview systems, and seven positions that are currently vacant but necessary for operational needs.¹⁵⁰

Cal Advocates argued that Cal-Am's forecast double-counted a Financial Analyst (FA) II B position and recommended removing the duplicate position from rates and ten of the new employee positions that Cal Advocates believes were not requested in Cal-Am's testimony.¹⁵¹

Cal-Am argued that the "duplicate" FA IIB position identified by Cal Advocates was a separate FA IIB position that had been converted to an Operations Specialist position and had been filled. Cal-Am further asserted that there were nine vacant positions included in forecasted labor and not ten as stated by Cal Advocates.¹⁵² The Settlement results in the following compromises:

- A. The Financial Analyst II B identified by Cal Advocates was not a "duplicate" position as this position has been filled and should be allowed in this GRC; and
- B. Cal-Am shall remove recovery for the nine positions that were vacant at the time of the GRC filing.

9.4. Supervisor Pay Differential

Cal-Am's application included a forecast of increased pay for supervisor positions to incentivize union employees to take those positions. Cal Advocates did not expressly address this issue in its testimony but did remove the related

¹⁵⁰ Application 100-Day Update, Attachment 1, Ch. 4, (PDF) at 29, 44-45, 132, 149-150, 244, 263-264, 358, 376-377, 473, 492-493, 609, 626-627, 734, 753-754, 847, 868-869; Exhibit CAW-5 at 61-63; Exhibit CAW-9 at 19-23; Exhibit CAW-22 at 53-56.

¹⁵¹ Exhibit CalPA-6E at 45-47.

¹⁵² Exhibit CAW-19 at 6-8.

increased forecasted supervisor pay expense from rates in the RO Model. Cal-Am emphasized the challenges involved in enticing union employees to accept supervisor roles.¹⁵³

The Settlement results in Cal-Am's agreement to withdraw its request and monitor the employment and economic impacts associated with the COVID-19 pandemic and any associated economic challenges. Cal-Am reserved its ability to propose appropriate measures, including potential a salary differential for supervisor positions, as needed in a future GRC.

9.5. Labor Overtime

Cal-Am multiplied its forecasted wage rates by 1.5 to 2 and applied those rates to the historical three-year average of the recorded overtime hours by eligible employee positions from 2016-2018 in each district.¹⁵⁴ Cal Advocates recommended that the forecast for the TY 2021 labor overtime expense should be decreased by 5.39% to account for increasing headcount.¹⁵⁵ Cal-Am rebutted that there is no direct correlation between total employee count and the overtime expense that Cal Advocates used to make its recommendation.¹⁵⁶ To resolve the matter, the Settlement adopts Cal-Am's forecast of labor overtime expense.

9.6. Performance Based Compensation

Cal-Am requested recovery of its forecasted expenses for its Annual Performance Plan (APP) short-term incentive program and its Long-Term

¹⁵³ Exhibit CAW-19 at 10-11.

¹⁵⁴ Application 100-Day Update, Attachment 1, Ch. 4, Table 4.8, (PDF) at 29, 44-45, 132, 149-150, 244, 263-264, 358, 376-377, 473, 492-493, 609, 626-627, 734, 753-754, 847, 868-869; CAW Exhibit 19 at 9.

¹⁵⁵ Exhibit CalPA-6E at 48-49 and Attachment 51.

¹⁵⁶ Exhibit CAW-19 at 9.

Performance Plan (LTPP) long-term incentive program for its employees.¹⁵⁷

Cal Advocates recommended disallowing 50% of APP expenses and all of Cal-Am's requested LTPP expenses.¹⁵⁸ Cal-Am rebutted that performance-based compensation is an important component of total compensation and should be authorized for cost recovery.¹⁵⁹

The Settlement provides the following compromises:

- A. Cal-Am shall split APP expenses related to Employee Bonuses and Incentives Programs equally between shareholder and ratepayers, particularly in consideration of the current COVID-19 pandemic and the associated economic challenges; and
- B. Cal-Am shall recover LTPP expenses as authorized in Cal-Am's prior GRC in D.18-12-021.

9.7. Discussion on Settled Labor Related Issues

We have reviewed the record of this proceeding concerning issues related to wage escalation, capitalization rate, anticipated number of new employees, supervisor pay differential, labor overtime, and performance-based compensation and find that the Settlement reaches compromises on these issues that are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall utilize an escalation factor for union employees based on the negotiated agreements as provided in Cal-Am's 100-Day Update submittal and Exhibit CAW-19. Cal-Am shall not seek recovery of the nine positions that were vacant at the time of the filing of this GRC and shall implement the forecasted wage rates provided in A.19-07-004. Rather than

¹⁵⁷ Exhibit CAW-5 at 65-66.

¹⁵⁸ Exhibit CalPA-6E at 50-53.

¹⁵⁹ Exhibit CAW-19 at 12-24.

recovering costs associated with increased supervisor pay in this GRC cycle Cal-AM shall monitor the employment and economic impacts associated with the ongoing public health crisis. Cal-Am's APP expenses related to employee bonuses and incentives should be split equally between shareholders and ratepayers, and Cal-Am should continue recovering LTPP expenses as authorized in D.18-12-021.

10. Plant Issues

Cal-Am requested capital expenditure costs associated with numerous projects throughout its service territory. Cal Advocates, the Cities of Duarte and San Marino, and MPWMD each proposed several changes to Cal-Am's proposed capital expenditures and projects. The Settlement provides compromises on each of these issues, as discussed below and adopts Cal-Am's proposals that were undisputed by parties. We discuss each proposal separately, district by district and issue by issue, below.

10.1. Los Angeles County District Projects

10.1.1. Los Angeles County District Undisputed Projects

Section 8.1.1 of the Settlement identifies projects in the Los Angeles County District which were not disputed by any parties in this proceeding.¹⁶⁰

We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Los Angeles County District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is

¹⁶⁰ Settlement at 39-40.

reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.1.2. Los Angeles County District Disputed Projects

The following projects were disputed by Cal Advocates in testimony, but agreements were later reached in the Settlement, as described below:

A. Project I15-500009 (Previously IP-0550-118) – LA Santa Fe Well Replacement. This carry-over project to replace the Santa Fe Well was approved in A.10-07-007 and Cal-Am has initiated work, but due to external delays, this project was not completed on schedule.¹⁶¹

Cal Advocates did not dispute the need for this capital project but has concerns about the feasibility of Cal-Am's forecasted project completion schedule and the potential for alternatives.¹⁶²

The Settlement includes a proposed agreement on the treatment of the LA Santa Fe Well Replacement project costs:

1. For the purposes of determining the rate base in question for this GRC (2021-2023), the spend for this proposed project will not be included in the rate base or revenue requirement calculations;
2. Cal-Am will be able to capitalize the carrying cost (AFUDC) of the project's reasonable and prudent costs into the project's overall cost from January 1, 2021, up until the time the project is completed and placed into service; and
3. Once the project is in service, Cal-Am will capture the costs separately in an off-book

¹⁶¹ A.19-07-004, Capital Projects Workpapers, Tab 12; Application 100-Day Update, Attachment 3, at 914 and 935; and Exhibit CAW-3 (Crooks Direct) at 29-30, Attachment 1.

¹⁶² Exhibit Cal PA-5, Menda Public Testimony at 95-96.

regulatory account along with the carrying cost of the project from the time it is complete until it goes into rate base for recovery.¹⁶³

B. *Project I15-500032 – Winston Well Redrill and Treatment.*

*The project to redrill the Winston Well was approved in A.10-07-007 with a cost of \$2,520,000 for the drilling of a replacement well and potential installation of new treatment system, depending on water quality analysis results. Work has been initiated but completion has been delayed, so Cal-Am is seeking to carry the project over into this GRC cycle.*¹⁶⁴

Cal Advocates did not dispute the need for this proposed project but expressed concerns about the proposed forecast Cal-Am provided in its testimony.¹⁶⁵ The Settlement presents the same compromises for the Winston Well carry-over project as proposed in the Santa Fe Well project described above.

C. *Project I15-500036 – Longden Well Redrill and Rehabilitation.*

*The redrilling and rehabilitation of the Longden Well was approved in A.13-07-002 to address the deficit in supply for the San Marino water system. The well is currently inoperable due to ongoing water contamination issues. The previously-approved budget is \$3,565,113, and Cal-Am states that the project is in the design phase with a target completion date of the end of 2022.*¹⁶⁶

Cal Advocates did not dispute the need for the Longden Well Redrill and Rehabilitation project but recommended the project's funding should be suspended until Cal-Am can demonstrate the project is complete and providing

¹⁶³ During project construction, AFUDC will be calculated based on the weighted average authorized cost of debt in effect for the relevant time period. Once the project is in service but not yet in rates, AFUDC will be calculated based on the authorized average cost of debt in effect for the relevant time period.

¹⁶⁴ A.19-07-004, Capital Projects Workpapers, Tab 17; Application 100-Day Update, Attachment 3, at 913 and 941; and Exhibit CAW-3 (Crooks Direct) at 33-34, Attachment 1.

¹⁶⁵ Exhibit Cal PA-5, Menda Public Testimony, at 95-96.

¹⁶⁶ A.19-07-004, Capital Projects Workpapers, Tab 18; Application 100-Day Update at 7, Attachment 3 at 915 and 936; Exhibit CAW-3 (Crooks Direct) at 34-36, Attachment 1.

service to ratepayers, and the cost should be removed from the forecasted rate base for this GRC.¹⁶⁷ The Settlement presents the same compromises for the Longden Well carry-over project as the two described above.

D. *Project I15-500030 (Previously IP-0550-38) – Oswego Well Replacement and Treatment.* *This project, which is intended to provide a reliable source of supply and reduce the LA district's dependence on purchased water, was also approved in A.10-07-007. Work has been initiated but it has not been completed due to external delays. Cal-Am states the project is in the design phase and is expected to be completed in 2021 with a budget of \$1,482,308.*¹⁶⁸

Cal Advocates recommended the Commission should temporarily suspend funding of the Oswego Well Project until Cal-Am can demonstrate the project has been completed and is providing service to ratepayers and remove the cost from the forecasted rate base in this GRC.¹⁶⁹

The Settlement presents the same compromises for the Oswego Well Replacement and Treatment project as the other three carry-over projects described above in this section.

E. *Project I15-500006 – Lamanda Well Redrill Project.* *In its testimony, Cal-Am states that the original site for the Lamanda well redrill project had to be abandoned due to unforeseen delays and construction challenges as well as permitting delays and incremental permitting requirements. Cal-Am has already incurred \$975,413 for the initial drilling and abandonment of the site. Cal-Am states that the redrilling project is still necessary*

¹⁶⁷ Exhibit Cal PA-4 (Goldberg) Public Version, Attachment 5, and Exhibit Cal PA-5 at 95-96.

¹⁶⁸ A.19-07-004, Capital Projects Workpapers, Tab 16; Application 100-Day Update, Attachment 3 at 913 and 935; Exhibit CAW-3 (Crooks Direct) at 39-40, Attachment 1.

¹⁶⁹ Exhibit Cal PA-4 (Goldberg Public Testimony), Attachment 7; Exhibit Cal PA-5 (Menda Public Testimony) at 95-96.

*because the wells in San Marino are declining in capacity and the service area has a lack of firm supply.*¹⁷⁰

Cal Advocates argued that Cal-Am made poor business decisions when designing and launching the Lamanda Well Re-drill Project and that ratepayers should not bear the costs associated with the technical risks and permitting delays that occurred during the project.¹⁷¹

Cal-Am stated that costs for the project should be recovered in the future when a new location and new well, which is necessary to maintain reliable water supply in the territory, has been completed and is serving ratepayers.¹⁷²

The Settlement provides the following compromises:

1. \$92,000 of design costs incurred during the initial well redrilling effort should be amortized over this GRC cycle (2021-2023);
 2. The design effort for the Lamanda project led to common project specification and economies of scale that benefited other designs completed under the same project;
 3. \$68,000 of costs incurred for demolition of the existing well should be authorized in this GRC because this work was not associated with the well redrill project, but was instead necessary to abandon the existing well; and
 4. The \$810,800 in remaining project costs will neither be included in rate base nor recovered from ratepayers.
- F. **Project I15-500066 – Main Replacement Program.** *Nearly 30 miles of mains in Cal-Am’s Los Angeles County District have been identified as in need of replacement through the Condition Based Assessment (CBA) or through hydraulic analysis of the*

¹⁷⁰ Exhibit CAW-3, Crooks Direct at 42-44.

¹⁷¹ Exhibit Cal PA-5 at 91-92, 95.

¹⁷² Exhibit CAW-17, Crooks Errata Rebuttal, at 22.

systems. Out of those miles, 23 must be upgraded to meet fire protection standards and forecasted future customer demand. The other seven miles must be upgraded due to a high likelihood of failure. Cal-Am requested a projected budget for this project of \$10,800,000 for 2021-2023.¹⁷³

Cal Advocates argued that because Cal-Am has prior experience with similar types of projects and is replacing existing mains, its contingency for this project should be 15%.¹⁷⁴ The Settlement provides that Cal-Am will use a 15% contingency and implement a total capital expenditure for this project of \$9,140,256.¹⁷⁵

G. Project I15-500071 – Tank Rehabilitation and Seismic Upgrades Program (2022-2026). *Cal-Am stated that through a series of tank assessments conducted over the past decade by third-party consultants, it has developed a maintenance and replacement program that includes all of its tanks. It also plans seismic upgrades in 2022-2023 at a projected cost of \$800,000.¹⁷⁶*

Cal Advocates argued that the proposed seismic upgrades to the existing tanks should not be allowed, because Cal-Am has not completed a seismic study to understand what seismic upgrades are necessary. Cal-Am noted that the costs related to five-year anniversary tank maintenance should be classified as deferred tank improvement costs rather than capital costs, and that it will

¹⁷³ A.19-07-004, Capital Projects Workpapers, Tab 29; Exhibit CAW-3 at 162-165, Attachment 1; Exhibit CAW-5 at 29-31 and 33-34; Exhibit CAW-9 at 71-72.

¹⁷⁴ Exhibit Cal PA-5C at 2, 27-28, and 90-91.

¹⁷⁵ Attachment C-4 of the Settlement shows the agreed-upon total capital expenditure to be \$9,140,256.

¹⁷⁶ A.19-07-004, Capital Projects Workpapers, Tab 34; Exhibit CAW-3 at 103, 162, and 167-169, Attachment 1; Exhibit CAW-5 at 28-29. The City of Duarte also discussed the potential impacts of seismic events on its water supply in Exhibit Duarte-1 at 2-5, and Attachments 1 and 9.

complete its seismic study in 2021, providing sufficient time to perform seismic upgrades in 2022.¹⁷⁷

The Settlement presents a compromise that Cal-Am shall complete a full seismic study on the tanks in the Los Angeles County District prior to starting any upgrades to the tanks, and this proposed project and any associated cost recovery will be deferred until the next GRC.

*H. **Project I15-500067** – Annual Well Installation and Replacement Program (2022-2026). Cal-Am states that new well installation and/or replacement of existing wells is necessary throughout the Los Angeles County District to meet existing customer demand as well as accommodate forecasted demand growth. This proposed project is intended to (1) increase system reliability; (2) maintain system capacity; (3) avoid catastrophic failures; (4) minimize potential violations; (5) extend the useful life of well facilities; (6) improve operability; (7) improve site aesthetics; (8) improve site safety; (9) increase customer satisfaction; and (10) decrease future unanticipated costs. Cal-Am requested a projected budget for \$4,000,000 through 2023 for this project.¹⁷⁸*

Cal Advocates argued that the projects included in this proposal are already included in previously-approved carryover projects.¹⁷⁹

Cal-Am rebutted that this project is necessary because additional costs are expected to meet the maximum day demands (MDD) in two of the

¹⁷⁷ Exhibit Cal PA-5C at 91-94 and 96; Exhibit Cal PA-9 at 39-41; Exhibit CAW-17 Rebuttal at 28-30.

¹⁷⁸ A.19-07-004, Capital Projects Workpapers, Tab 30; Exhibit CAW-3 at 44, 162, and 169-171; Exhibit CAW-9 at 73. We note that the Drinking Water Program was transferred from CDPH to the State Water Resources Control Board and renamed the Division of Drinking Water in July 2014.

¹⁷⁹ Exhibit Cal PA-4C at 19-20 and 54; Exhibit Cal PA-5 at 91-92 and 95-96.

Los Angeles Systems that include Duarte and San Marino.¹⁸⁰ The Settlement presents a compromise by Cal-Am to remove the 2022 forecasted budget for Project I15-500067 from the cost forecast in this GRC cycle, with the agreement and understanding that Cal-Am may request this capital project in its next GRC.¹⁸¹

I. ***Project I15-500065 – Standby Generator Improvement Program (2021-2026).*** *Cal-Am proposes to install generators at sites in the Los Angeles County District to serve as backup power supply during the increasing number of Public Safety Power Shutoff (PSPS) events and other power outages. Cal-Am states that this project would be a continuation of the previous Tier 4 Compliance Standby Power Project (I15-500058).*¹⁸²

Cal Advocates argued that stationary back-up generators should not be installed at this time, and that Cal-Am should instead conduct a portable generator and power shutoff study.¹⁸³ The City of Duarte supported Cal Advocates' request for Cal-Am to conduct a study regarding the feasibility for portable back-up generators.¹⁸⁴

Cal-Am reiterated that this project should be deemed necessary to address emergency power to critical infrastructure.¹⁸⁵

The Settlement provides a compromise that incorporates Cal Advocates' proposed scope and provides that Cal-Am shall conduct a Portable Generator

¹⁸⁰ Exhibit CAW-17 at 22-23 and 25-28; Exhibit CAW-22 at 64. This issue was also addressed in Exhibit Duarte-1, in Attachment 9.

¹⁸¹ Settlement at 48.

¹⁸² A.19-07-004, Capital Projects Workpapers, Tab 28; Exhibit CAW-3, Crooks Direct at 162, 174-176, and Attachment 1.

¹⁸³ Exhibit Cal PA-5C, Menda at 2, 26, 90-91, 94, and 96; Exhibit Cal PA-9C Reed at 3-4, 20-26.

¹⁸⁴ Exhibit Duarte-1 at 4-5.

¹⁸⁵ Exhibit CAW-17, Crooks Errata Rebuttal at 27-28; Exhibit CAW-19, Hofer Rebuttal at 34-37.

Planning Study to consider alternatives to installing stationary generators at its sites, as discussed in Section 7.13 above.¹⁸⁶

10.1.3. Discussion on Los Angeles County District Disputed Projects

We find the Settlement, as it relates to the disputed projects in Cal-Am's Los Angeles County District, reaches compromises on these projects and the issues related to them that are reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. Cal-Am shall complete studies to identify alternatives to stationary back-up generators and prioritize tank maintenance expenditures prior to beginning capital projects in the Los Angeles County District to develop back-up power resources or implementing tank maintenance. Further, Cal-Am shall not recover any costs associated with a new annual well installation and replacement program for the Los Angeles County District in this GRC cycle.

10.1.4. Los Angeles County District Recurring Projects

Cal-Am requested a total estimated direct capital expenditure cost associated with Los Angeles County District Recurring Projects (RPs) of \$4,427,083 in 2021 and \$4,629,874 in 2022.¹⁸⁷ Cal Advocates recommended reducing the proposed budget to remove any forecasted RP costs associated with the Bellflower system, which has not yet been acquired by Cal-Am.¹⁸⁸

¹⁸⁶ Settlement at 48.

¹⁸⁷ Exhibit CAW-3 at 19-28, Attachment 2.

¹⁸⁸ Exhibit Cal PA-5 at 2, 8-9, 89-91, and 96-97.

Cal-Am argued its requested budget for Los Angeles area RPs is reasonable based on anticipated increases in on-going routine and potential emergency capital maintenance costs.¹⁸⁹

Rather than litigating this issue, the Settlement presents the following:

- A. Cal-Am's Los Angeles County District RP budget shall be \$4,212,875 in 2021 and \$4,410,929 in 2022;
- B. The agreed upon amounts shall be reflected in each year's Utility Plant In Service (UPIS);
- C. Cal-Am's authority to spend the budgets requested for RP associated with the Bellflower system (approximately \$137,593 in 2021 and \$139,822 in 2022) is contingent upon the Commission's approval of Cal-Am's request to acquire the Bellflower Municipal Water System;¹⁹⁰ and
- D. Cal-Am management has the flexibility to reallocate the agreed-upon spending levels across the Los Angeles District RP line items as necessary consistent with D.18-12-021.¹⁹¹

We have reviewed the record of this proceeding concerning the recurring projects in Cal-Am's Los Angeles County District and find that the parties have reached compromises on these issues that are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall limit its RP budget for the Los Angeles County District to the amounts agreed upon in the Settlement and shall not request any cost recovery associated with its outstanding request to acquire the Bellflower System until/unless the Commission authorizes the acquisition. While we authorize the Cal-Am to recover the Settlement's requested budget for RP in the Los Angeles County

¹⁸⁹ Exhibit CAW-17 at 3-5 and 8-10.

¹⁹⁰ A.19-07-004 18-09-013.

¹⁹¹ Settlement at 49.

District, Cal-Am shall not expend any of this authorized recurring project budget on recurring projects related to the Bellflower system during this GRC cycle.

Cal-Am maintains flexibility to manage the overall RP budget in the Los Angeles County District to allocate different spending levels to specific line items as necessary, consistent with the authority granted in D.18-12-021.¹⁹² The Commission will determine whether Cal-Am can recover costs associated with the Bellflower system when it issues a decision on the proposed acquisition.

10.2. San Diego County District

10.2.1. San Diego County District Undisputed Projects

Section 8.2.1 of the Settlement identifies projects Cal-Am proposed in the San Diego County District that were not disputed by any party.¹⁹³ We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's San Diego County District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.2.2. San Diego County District Disputed Project

The following project was disputed in party testimony, but agreements were later reached in the Settlement, as described below:

*A. **Project I15-300010** – Replace 16' Transmission Main along the Silver Strand – Project A-X. In this GRC, Cal-Am is proposing additional design and permitting expenditures for this entire*

¹⁹² D.18-12-021 at 149.

¹⁹³ Settlement at 49-50.

*carry-over project, increasing the total estimated cost to approximately \$26,500,000. Its testimony provided the estimated annual capital expenditures by year for 2018-2024, and Cal-Am now expects the project to be complete in 2024.*¹⁹⁴

Cal Advocates asserted that the Commission should account for funding already approved in rates and the amount Cal-Am planned to spend in 2018-2019 for the project.¹⁹⁵ Cal-Am rebutted that the project is moving along more quickly than before; there have been recent main breaks along the more than 100-year-old pipeline; and therefore, Cal-Am asked the Commission to approve the requested budget for this project based on its progress so far and the heightened need to replace the main in the San Diego County district.¹⁹⁶

Rather than litigating this issue, the Settlement provides that the approved project budget should include the additional funding requested in this GRC, as supported by the additional information detailed in Cal-Am's rebuttal testimony.

We have reviewed the record of this proceeding concerning the San Diego County District Silver Strand main replacement and find that the Settlement's compromises on these issues are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am's implementation advice letter for this GRC shall reflect the agreed-upon capital expenditures for this capital project as included in Attachment C-4 of the Settlement.¹⁹⁷

¹⁹⁴ A.19-07-004, Capital Projects Workpapers, Tab 102; Application 100-Day Update at 7 and Attachment 3 at 921, 936; Exhibit CAW-3 at 111-116, Attachment 1.

¹⁹⁵ Exhibit Cal PA-5 at 100-102.

¹⁹⁶ Exhibit CAW-17 at 30-32.

¹⁹⁷ Settlement at 219, Attachment C-4.

10.3. Ventura County District

10.3.1. Ventura County District Undisputed Projects

Section 8.3.1 of the Settlement identifies projects in the Ventura County District were that were not disputed by parties in this proceeding.¹⁹⁸ We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Ventura County District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.3.2. Ventura County District Disputed Projects

The following projects were disputed in Cal Advocate's testimony. The Settlement provides compromises on each, which we evaluate below:

*A. **Project I15-510055** – Standby Generator Improvements. Cal-Am proposed to install back-up generators at sites within the Ventura District to provide uninterrupted water service during PSPS events and other power outages.¹⁹⁹*

Cal Advocates opposed this request and recommended the Commission deny this request and require Cal-Am to conduct a portable generator and power shutoff study.²⁰⁰

¹⁹⁸ Settlement at 51-52.

¹⁹⁹ A.19-07-004, Capital Projects Workpapers, Tab 128; Exhibit CAW-3 at 183, 186-188, Attachment 1.

²⁰⁰ Exhibit Cal PA-5C at 2, 24-26, 80, 86-88; Exhibit Cal PA-9C at 3-4, 20-26.

Cal-Am argued that fixed generators with automatic transfer switches will drastically reduce power loss at sites, ensuring water service can continue even during power outages and provide support for fire department and other essential water infrastructure needs.²⁰¹

The Settlement presents a compromise that incorporates Cal Advocates' proposed scope and provides that Cal-Am will conduct a Portable Generator Planning Study to consider alternatives to installing stationary generators at its sites, as discussed in Sections 7.13 and 10.1.2 above.

B. *Project I15-510049 – Academy Turnout Rehabilitation.* *Cal-Am proposes to provide resiliency to the Ventura District system by creating an additional interconnection with the Calleguas Municipal Water District. It is projected to cost \$450,000. According to Cal-Am, the turnout is currently out of service, and the project would provide the upgrades necessary to allow conveyance of water from the Municipal Water District to the Ventura Water District Thousand Oaks service area.*²⁰²

Cal Advocates stated that this project is unnecessary because the current system capacity is adequate to meet Cal-Am's existing and forecasted demand.²⁰³

Cal-Am argued the Academy Turnout could provide better redundancy and increased resiliency to the system and reiterated the need for the proposed project.²⁰⁴ In the Settlement, Cal-Am agreed to Cal Advocates' recommendation to not include this project in this GRC.

C. *Project I15-510041 – Pump Station Replacement and Rehabilitation Project (2021-2026).* *Cal-Am has identified the most critical booster pump stations in the Ventura County District that*

²⁰¹ Exhibit CAW-17 at 20-21.

²⁰² A.19-07-004, Capital Projects Workpapers, Tab 125; Exhibit CAW-3 at 183, 189-190, Attachment 1; Exhibit CAW-5 at 8.

²⁰³ Exhibit Cal PA-5C at 80, 85-86, 88.

²⁰⁴ Exhibit CAW-17 at 21.

are due for replacement. It requested \$3,900,000 for 2021 through 2023 to complete the proposed replacements.²⁰⁵

Cal Advocates argued the Commission should only authorize a budget of \$1,882,342 for 2021-2022 and reduce the approved budget to remove installation of permanent generators from the project scope.²⁰⁶ In the Settlement, Cal-Am agreed to Cal Advocates' position on the above issue.²⁰⁷

D. Project I15-510054 – Tank Rehabilitation and Seismic Upgrades Program (2022-2026). *Cal-Am developed a maintenance and replacement program that includes seismic upgrades to steel and concrete tanks located throughout the Ventura District service area. The actual seismic upgrades will be identified through a separate study that will be completed in 2021. Cal-Am requested \$2,400,000 during 2022-2023 to conduct some of the projects identified through its studies in the Ventura District.²⁰⁸*

Cal Advocates argued that funding for seismic improvements should only be authorized after the studies have been completed.²⁰⁹

Cal-Am agreed to Cal Advocates' recommended scope and budget reductions.²¹⁰ In the Settlement, Cal-Am agreed to (1) adopt Cal Advocates' recommended scope and budget reductions so the total 2022 budget to be authorized in this GRC will be \$306,633, and (2) complete the seismic study before work begins on this project.²¹¹

²⁰⁵ A.19-07-004, Capital Projects Workpapers, Tab 120; Exhibit CAW-3 at 182-184, Attachment 1; Exhibit CAW-5 at 76; and Exhibit CAW-9 at 74-76.

²⁰⁶ Exhibit Cal PA-5C Menda Confidential at 79-80, 83-85, and 87.

²⁰⁷ Settlement, Attachment C-4.

²⁰⁸ A.19-07-004, Capital Projects Workpapers, Tab 127; Exhibit CAW-3 Crooks Direct at 183, 185, 186, and Attachment 1; Exhibit CAW-5 Hofer Public Direct at 28-29.

²⁰⁹ Exhibit Cal PA-5C Menda Confidential at 79-82, 87.

²¹⁰ Exhibit CAW-17 Crooks Errata Rebuttal at 3.

²¹¹ *Ibid.*

10.3.3. Discussion on Ventura County Disputed Projects

We have reviewed the record of this proceeding as it relates to the disputed projects Cal-Am proposed for its Ventura County District and find the Settlement reaches compromises that are reasonable in light of the whole record, consistent with the law, and in the public interest. Consistent with our finding in Section 7.13, the Settlement provides a compromise on the Ventura County disputed projects that limit Cal-Am's recovery of costs related to additional stationary back-up generators until a full study on alternative options can be completed. Cal-Am shall not recover any costs associated with its proposed Academy Turnout rehabilitation project during this GRC cycle because the proposed project is not yet necessary to support Cal-Am's forecasted demand. Further, Cal-Am shall complete a seismic study before starting work on any seismic improvements on tanks in its Ventura County District.

10.3.4. Ventura County Recurring Projects

Cal-Am requested an estimated budget for Ventura County District RP, which Cal Advocates recommended reducing. Cal Advocates noted that the forecasted RP costs requested in Cal-Am's application were significantly higher than the utility's historic expenditures, especially for the process plant category.²¹²

Cal-Am argued that its requested RP budget for the Ventura County District was justified based on anticipated increases in on-going routine and unpredicted capital maintenance costs.

²¹² Exhibit Cal PA-5 at 2, 8-9, 12-17, 78-80, and 87-88.

In the Settlement, Cal-Am agreed to use Cal Advocates' adjusted budgets for this issue.²¹³

We have reviewed the record of this proceeding find that the parties have made compromises on the Ventura County RP budget that are reasonable in light of the whole record, consistent with the law, and in the public interest because the adjusted budgets reflect recent expenditures for similar projects. Cal-Am shall recover the costs associated with the Ventura County RP budget as reflected in Attachment C-4 of the Settlement and maintain flexibility to manage the overall RP budget in the Ventura County District to allocate different spending levels to specific line items as necessary, consistent with the authority granted in D.18-12-021.

10.4. Central Division District

10.4.1. Central Division District Non-Disputed Projects

The Settlement's Section 8.4.1 identifies projects in Cal-Am's Central Division District that were not disputed by parties to this proceeding.²¹⁴ We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Central Division District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

²¹³ Exhibit CAW-17 at 3-5 and 7-10; Settlement at 55-56 and Attachment C-4.

²¹⁴ Settlement at 56-57.

10.4.2. Central Division Disputed Projects

The Settlement provides compromises on the issues associated with Central Division Projects that were disputed by Cal Advocates and MPWMD in testimony, as detailed below:

- A. *Project I15-400131 – Well Rehabilitation Program (2021-2026).* Cal-Am requested \$3,000,000 in 2021-2023 to rehabilitate, replace, and add new wells, as a continuation of the program approved in Cal-Am’s 2013 and 2016 GRCs. This proposal has an added scope of replacing wells if the initial evaluation finds that rehabilitation is not viable and adding wells if production is not sufficient to meet system demand.²¹⁵

Cal Advocates argued the sum of project costs proposed for 2021-2022 is lower than Cal-Am’s budget request and one of the project candidates in this proposed program is not necessary at this time.²¹⁶

MPWMD, in contrast, argued that Cal-Am’s request for the well rehabilitation program is too low and “may not represent a serious commitment to maximizing [aquifer storage and recovery (ASR)] yields.”²¹⁷

Cal-Am argued that the identified wells are only a partial representation of the projects necessary to provide adequate service to the Monterey system, especially in the Carmel Valley, but that the budget it requests in this GRC is appropriate for 2021-2023.²¹⁸

The Settlement adopts Cal Advocates’ recommended budget for the Well Rehabilitation program in the Monterey District.²¹⁹ MPWMD continues to

²¹⁵ A.19-07-004, Capital Projects Workpapers, Tab 62; Exhibit CAW-2 Cook Direct at 9; Exhibit CAW-3 at 193,197-199, Attachment 1.

²¹⁶ Exhibit Cal PA-5C at 55-60 and 69.

²¹⁷ MPWMD-1 at 7, 10-11.

²¹⁸ Exhibit CAW-16 at 2; Exhibit CAW-17 Crooks Errata Rebuttal at 14-15.

²¹⁹ Settlement at 58 and Attachment C-4.

view the compromise reached in the Settlement on this project as “an underfunding of critical Monterey infrastructure needs.”²²⁰ Cal-Am argued that the budget compromise reached in the Settlement, through “hard-wrought negotiations,” balances the financial needs of completing well rehabilitation and replacement against the potential for increased customer rates.²²¹

*B. Project I15-400128 – Supervisory Control and Data Acquisition (SCADA) Maintenance and Improvements Program (2021-2026). Cal-Am requested \$1,800,000 for new equipment and SCADA system upgrades in the Central Division in 2021-2023, as a continuation of a project approved in prior GRCs.*²²²

Cal Advocates noted the amount Cal-Am is seeking to recover in the current GRC (2021-2023) represents most of the total cost of the projects identified through 2026.²²³

Cal-Am argued that its proposed SCADA Maintenance and Improvements Program for the Central District not only includes the costs of the projects listed in the workpapers, but also estimated annual costs to ensure its SCADA system remains up-to-date and reliable.²²⁴

The Settlement adopts Cal-Am’s forecasted budget for this project, consistent with the additional details provided in Cal-Am’s rebuttal testimony.

²²⁰ MPWMD Comments on the Settlement at 4, 14, and 16.

²²¹ CAW Reply Brief at 11; CAW Reply Comments on Settlement Agreements at 5.

²²² A.19-07-004, Capital Projects Workpapers, Tab 59; Exhibit CAW-3 at 193, 199-200 and Attachment 1.

²²³ Exhibit Cal PA-5C at 55-56, 61-63, and 70.

²²⁴ Exhibit CAW-17 at 12-13.

C. *Project I15-400129 – Tank Rehabilitation Program (2021-2026).* Cal-Am requested \$2,515,728 for 2021-2022 to provide regular maintenance to the 120 storage tank facilities in the Monterey District.²²⁵

Cal Advocates testified that the total direct costs for the projects in Cal-Am's Tank Rehabilitation Program exceeds the total proposed 2021-2026 budget for this project. Cal Advocates also stated the costs for the five-year anniversary tank maintenance should be considered deferred tank improvement costs, rather than capital costs, and that Cal-Am requested duplicate cost recovery of tank painting projects.²²⁶

In the Settlement, Cal-Am agreed to Cal Advocates' budget modifications as detailed in Attachment C-4 of the Settlement.²²⁷

D. *Project I15-400140 – Standby Generator Improvement Program (2021-2026).* Similar to its requests in the Los Angeles and Ventura County Districts, Cal-Am sought to recover up to \$1,050,000 in 2021-2023 to install and upgrade backup power generators at its pump stations and water treatment facilities in its Central Division.²²⁸

Cal Advocates argued that Cal-Am should only be authorized to use a significantly reduced budget to procure portable generators and reiterated its argument that Cal-Am should be directed to conduct a portable generator and power shutoff study before installing additional generators.²²⁹

²²⁵ A.19-07-004, Capital Projects Workpapers, Tab 60; Exhibit CAW-3 at 193, 200-201, and Attachment 1; Exhibit CAW-5 at 28-29.

²²⁶ Exhibit Cal PA-5C at 55-56, 64-70; Exhibit Cal PA-9 at 39-41.

²²⁷ Exhibit CAW-17 at 2-3; Settlement at 59-60 and Attachment C-4.

²²⁸ A.19-07-004, Capital Projects Workpapers, Tab 69; Exhibit CAW-3 at 193, 201-202, and Attachment 1.

²²⁹ Exhibit Cal PA-5C at 55-56, 63-64; Exhibit Cal PA-9C at 3-4, 20-26.

Cal-Am argued that the project and proposed budget are necessary to provide reliable service to the Central Division. Cal-Am also argued that reliance on portable generators is labor intensive and could be inefficient.²³⁰

In the Settlement, Cal-Am agreed to Cal Advocates' proposed budget modifications for the Central District's standby generator improvement program and to prepare a Portable Generator Planning Study to consider alternatives to installing stationary generators, as described in Section 7.13 above.²³¹

MPWMD argued that the compromise reached in the Settlement "is completely at odds with the vivid, descriptive testimony of Cal-Am's own engineer and is not in the public interest of the Monterey Service Area customers."²³² MPWMD stated that the Central District has many customers that would lose water service in the event of a power shutoff, and that Cal-Am's initial request for this project should be authorized.²³³

E. *Project I15-400130 – Carmel Woods #1 and #1 Tank Replacement. Cal-Am requested \$421,657 in 2022 to replace two 50,000-gallon concrete storage tanks which are leaking and at the end of their useful life.*²³⁴

Cal Advocates asserted that the total storage volume for the two existing tanks is not necessary to meet the current storage demands for the specified

²³⁰ Exhibit CAW-17 at 15-17.

²³¹ Settlement at 60 and Attachment C-4 at 220.

²³² MPWMD comments on the Settlement at 4, footnote to Exhibit CAW-17 at 15-17 omitted.

²³³ MPWMD-CAW Settlement at 14 and 16.

²³⁴ A.19-07-004, Capital Projects Workpapers, Tab 61; Exhibit CAW-3 at 193, 204-205, and Attachment 1.

pressure zone.²³⁵ In the Settlement, the parties agreed to defer this project to a future GRC.²³⁶

F. *Project I15-400124 – Huckleberry Hydropneumatic Tank Replacement. Cal-Am requested \$1,322,856 to replace an existing hydropneumatic tank that is showing signs of rust and decay.*²³⁷

Cal Advocates argued that Cal-Am's cost estimate was based on construction of a storage tank, rather than the installation of a hydropneumatic tank, and that the approved budget should be reduced to \$399,000 in 2020.²³⁸ In the Settlement, Cal-Am agreed to adopt Cal Advocates' budget recommendation.

G. *Project I15-400123 – Annual Program – Well Rehabilitation and Replacement (2018-2020). Cal-Am requested \$3,000,000 in 2021-2023 to continue a well rehabilitation program that was approved in its 2013 and 2016 GRCs. Cal-Am proposed to expand the scope of the program to allow for well replacement when a well cannot be rehabilitated or to develop new wells, if necessary, to meet system demands.*²³⁹

Cal Advocates argued that the actual sum of project costs for the specific wells identified in Cal-Am's application is significantly lower than the \$3,000,000 requested, and that one of the project candidates proposed in this program should be denied because it is not needed at this time.

MPWMD argued the budget proposed by Cal-Am is low and may not represent a serious effort to maximize ASR yields. MPWMD also recommended

²³⁵ Exhibit Cal PA-5C at 56, 60-61, and 69-70.

²³⁶ Exhibit CAW-17 at 13-14; Settlement at 61 and 220.

²³⁷ A.19-07-004, Capital Projects Workpapers, Tab 54; Application 100-Day Update at 9 and Attachment 3, at 924 and 940; Exhibit CAW-3 at 143 and Attachment 1; Exhibit CAW-9 at Attachment 1.

²³⁸ Exhibit Cal PA-4 at Attachment 7; Exhibit Cal PA-5 at 69-70.

²³⁹ A.19-07-004, Capital Projects Workpapers, Tab 62; Exhibit CAW-2 at 9; Exhibit CAW-3 at 125-26, 145-46, 197-99, 209-12

the Commission separate and reject the costs requested by Cal-Am to drill new wells for the Sand City Desalination Plant.²⁴⁰

MPWMD noted that the Commission's approval of costs to support the Sand City Desalination Plant was to support customer growth in the Monterey service district, and the cost recovery approved in D.13-04-015 is solely associated with Cal-Am's production and delivery of water from Sand City, not the drilling of new wells. MPWMD recommended the Commission deny Cal-Am's request to use ratepayer funds to drill new wells to support the Sand City plant's ongoing operation.

Cal-Am argued that it has determined that the existing wells at the Sand City plant are "significantly impacted by water quality and will require the addition of a [new] well to replace lost capacity."²⁴¹ Cal-Am also argued that nothing in the prior proceeding preempts it from recovering the costs of drilling a new well to support its own facilities.²⁴²

The Settlement provides a compromise to incorporate Cal Advocates' proposed budget modifications for Project I15-400123 as reflected in Attachment C-4 of the Settlement, reflecting a total of \$1,258,518 for this project during this GRC cycle.

H. Project I15-400141 – New Carmel Valley Well. Several of the existing wells in the Lower Carmel Valley have declining production and must be replaced to fully implement Cal-Am's maximum Carmel River water rights and the ASR program. Cal-Am requested \$1,897,303 to construct one new well on the Rancho Canada Golf Course that will be 120-150 feet deep and

²⁴⁰ MPWMD-1 at 3-13.

²⁴¹ Exhibit CAW-3 at 125.

²⁴² Cal-Am reply comments to MPWMD comments on the Settlement and the Cal-Am-Las Palmas Settlement.

*have a production capacity of 1,200 to 2,500 gallons per minute.*²⁴³

MPWMD asserted that Cal-Am should construct more than one well – and preferably three to five new wells – to support the ASR program adopted in D.18-09-017.²⁴⁴ In the Cal-Am-MPWMD Settlement, MPWMD agreed to Cal-Am’s request for this project.²⁴⁵

- I. *Project I15-400143 – Forest Lake Pump Station. Cal-Am proposes to construct a new pump station to raise the pressure in the transmission line between Forest Lake and Carmel Valley, which has four high spots in Carmel where the pressure can sometimes drop below the normal lower operating limit. This proposed pump station would likely be located at or near the Forest Lake Tanks site and could raise the pressure to within the normal operating limit throughout the pipeline.*²⁴⁶

MPWMD strongly encouraged the Commission to approve Cal-Am’s request for this project, stating that this new pump station will also provide “immense benefits to the system’s ability to take water from the new source supplies in the north to customers in the south, traditionally served by the Carmel River, upon which production must be reduced by regulatory order.”²⁴⁷

The Settlement adopts Cal-Am’s proposal and budget.

- J. *Project I15-400122 – Los Padres Dam NMFS MOA Requirements. Cal-Am operates the Los Padres Dam (LPD) along the Carmel River. In 2017, Cal-Am entered into two memoranda of agreements (MOA) with the National Marine Fisheries Service (NMFS) to evaluate the potential impacts of removing LPD, which was constructed in 1949, and other alternatives to the dam’s removal. Cal-Am requested*

²⁴³ Exhibit CAW-3 at 125-26, 145-46, 197-99, 209-12

²⁴⁴ Exhibit MPWMD-1 at 3-13.

²⁴⁵ Cal-Am-MPWMD Settlement at 16.

²⁴⁶ Exhibit CAW-3 at 125-126, 145-146, 197-199, and 209-212; Exhibit CAW-17 at 14-16 and 18-19.

²⁴⁷ Cal-Am-MPWMD Settlement at 16.

\$12,417,500 to conduct additional studies to evaluate alternatives to the LPD removal and complete this project.²⁴⁸

MPWMD requested the Commission continue to fund this project. As a project manager, MPWMD stated that it is working with Cal-Am to contain the costs related to the NMFS studies.²⁴⁹ The Settlement adopts Cal-Am's proposal and budget for this project.

10.4.3. Discussion on Central Division Disputed Projects

We find the Settlement provisions relating to the budgets for the above summarized issues ((1) the Central Division Well Rehabilitation Program; (2) the Tank Rehabilitation Program budget for this GRC cycle; (3) the cost of the Huckleberry hydropneumatic tank replacement project; (4) deferral of the Carmel Woods tank replacement project; (5) the SCADA system maintenance and equipment upgrade costs for the Central District; (6) the New Carmel Valley Well Project; (7) the Forest Lake Pump Station, and (8) the Los Padres Dam studies and project) to be reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. While MPWMD highlights the need for additional investment in Cal-Am's Monterey Service District, we find the Settlement strikes a reasonable balance between the capital expenditures necessary in the near term and the potential customer bill impacts from the major well upgrade programs, supports the necessary SCADA system maintenance and equipment upgrades, and funds the ongoing studies necessary to evaluate the removal of the Los Padres Dam.

²⁴⁸ Exhibit CAW-3 at 125-126, 145-146, 197-199, and 209-212; Exhibit CAW-17 at 14-16 and 18-19.

²⁴⁹ Cal-Am-MPWMD Settlement at 15.

Further, consistent with our discussion in Section 7.13 above, Cal-Am is provided with initial funding to support portable generator deployment to alleviate near-term concerns about potential power shut-offs at facilities in the Central District and authorized to recover costs associated with conducting and completing a study on alternatives to stationary generators at facilities in the Central District as well as the rest of its service territory. We find it reasonable for this broader study to occur before authorizing Cal-Am to expend significant capital to install additional, stationary back-up power resources that may not be necessary. This issue may be considered further in a future GRC once the Portable Generator Planning Study is complete.

The Settlement, however, does not address the Sand City well issues raised by MPWMD. D.13-04-015 authorized Cal-Am to purchase water from the Sand City Desalination Plant under specific terms, with cost recovery to be evaluated through an advice letter process.²⁵⁰

Cal-Am is authorized to recover the costs of water it produces and delivers from the existing Sand City plant. However, the cost allocation method adopted by D.13-04-015 specifically intended to “leave the operational cost risk with shareholders, and to protect ratepayers from assuming Cal-Am’s guarantee of production regardless of cost.”²⁵¹ Cal-Am’s defense of drilling a new well identifies ongoing operational risks at the plant which fall outside the types of

²⁵⁰ D.13-04-015 denied Cal-Am’s request to enter a 31-year lease for the Sand City Desalination Plant because Cal-Am failed to show that the water produced by the plant is the most reasonable and prudent resource to supply water to customers – both new and existing – in its Monterey District. However, Cal-Am was authorized to include the costs of water it produces and delivers to Monterey District customers from the Sand City plant in its Monterey District revenue requirement. (See D.13-04-015 at 22-33.)

²⁵¹ D.13-04-015 at 32.

costs it is authorized to recover from ratepayers. Therefore, any associated costs should be paid by Cal-Am shareholders, if at all.

We have reviewed the record of this proceeding as it relates to the Sand City projects proposed by Cal-Am and find the budget for Project I15-400123 in the Settlement to be reasonable. However, we find that Cal-Am should not utilize ratepayer funding to drill a new well at the Sand City Desalination Plant site using this budget, because new well drilling should not go beyond the authority granted in D.13-04-015. If Cal-Am seeks to modify the authorization granted in D.13-04-015, it should do so through a petition to modify that decision specifically. For this GRC cycle, Cal-Am should reallocate the amount proposed for the Sand City portion of the Central Division Well Rehab project to other Central Division projects that are approved in this decision. Further, Cal-Am is directed to work with MPWMD to identify projects that could better serve its Monterey District customers, which could be requested in the next GRC.

This decision proposes to modify the provision of the Settlement related to Project I15-400123. The settling parties may elect to accept or reject the proposed decision's modifications in comments on the proposed decision, pursuant to Rule 12.4(c).

10.5. Monterey County Wastewater District

10.5.1. Monterey County Wastewater District Non-Disputed Projects

The following projects in the Monterey County Wastewater District were not disputed.

- a. Project I15-420004 – Spreckles Boulevard Main Replacement (proposed); and

b. Recuring Projects R15-42B through R15-42R.²⁵²

We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Monterey County Wastewater District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

**10.5.2. Monterey County Wastewater District
Disputed Project**

The Settlement provides compromises reached to address the issues associated with one of Cal-Am's proposed Monterey County Wastewater District projects that was disputed by parties in testimony, as detailed below:

A. *Project I15-420003 – Las Palmas Moving Bed Bioreactor (MBBR) Installation. Cal-Am requested \$248,033 in 2022 for a retrofit of the Las Palmas Ranch Wastewater Treatment Plant that would remove the existing trickling filter towers, convert the secondary clarifiers 1 and 2 into process tanks that house a MBBR, install coarse and medium bubble aeration and blowers, and install retention screens at the outlet of each secondary clarifier. Cal-Am states this project is necessary because the Plant 1 trickling filter tanks are not structurally sound, that Cal-Am has already sought a third-party evaluation of alternatives to improve the operations at the Las Palmas Ranch treatment plant, and that the MBBR proposal offered in its testimony was found to be the best alternative.*²⁵³

²⁵² Settlement at 62.

²⁵³ A.19-07-004, Capital Projects Workpapers, Tab 72; Exhibit CAW-3 at 213-215 and Attachment 1; Exhibit CAW-2 at 15-17; Exhibit CAW-6 at 91.

Cal Advocates argued that the requested budget should be reduced to eliminate redundant contingency project costs included in Cal-Am's request.²⁵⁴ Cal-Am agreed to Cal Advocates' proposed budget reduction.²⁵⁵

No other parties filed comments on this project.

The Settlement provides a budget that excludes redundant contingency costs but allows for the MBBR project to move forward as proposed.

We have reviewed the record of this proceeding concerning the Las Palmas MBBR project and find that the compromise reached on this issue is reasonable in light of the whole record, consistent with law, and in the public interest.²⁵⁶ Cal-Am shall continue the project with the budget reductions proposed by Cal Advocates, as agreed to in the Settlement.

10.6. Sacramento County District

10.6.1. Sacramento County District Undisputed Projects

Section 8.6.1 of the Settlement identifies projects in the Sacramento County District that were not disputed by parties.²⁵⁷ We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Monterey County Wastewater District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate

²⁵⁴ Exhibit CalPA-5C at 72 and 75-77.

²⁵⁵ Exhibit CAW-16 at 7-8; Exhibit CAW-17 at 2-3.

²⁵⁶ Settlement at 221.

²⁵⁷ Settlement at 63-64.

base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.6.2. Sacramento County District Disputed Projects

The Settlement provides compromises reached to address the issues associated with Cal-Am's proposed Sacramento County District projects that were disputed by parties in testimony, as detailed below:

A. Project I15-600094 – Nut Plains Well PFOA Treatment. This previously-approved investment project, which was completed in Fall 2017 at a total cost of \$1,292,899, was necessary to lower the levels of Perfluorooctanoic acid (PFOA) and other contaminants in drinking water served in Cal-Am's Suburban-Rosemont service area to comply with a May 25, 2016 federal health advisory.²⁵⁸

Cal Advocates opposed authorizing the full cost recovery because Cal-Am is seeking repayment from the U.S. Air Force (Air Force) for part of the treatment upgrades costs.²⁵⁹

Cal-Am argued that, despite the Air Force being potentially responsible for the underlying contamination driving remediation project, there is no guarantee what cost recovery is feasible from the Air Force. Cal-Am further argued that, due to the indeterminate amount of time it may take for the lawsuit to be resolved, the Commission should approve the full cost recovery for this project requested in this GRC.²⁶⁰

The Settlement provides that Cal-Am's requested costs related to the Nut Plains Well PFOA Treatment should be included in rate base in this GRC.

²⁵⁸ Application 100-Day Update, Attachment 3 at 912; Exhibit CAW-3 at 89-90; Exhibit CAW-5 at 3-4.

²⁵⁹ Exhibit CalPA-4 at 9, 23-24.

²⁶⁰ Exhibit CAW-17 at 12; Exhibit CAW-22 at 57-58.

Cal-Am also agreed that, in the event that it obtains any monetary recovery through litigation for this project, it will seek Commission approval to allocate any net proceeds consistent with D.10-10-018.²⁶¹

- B. *Project I15-600072- Sacramento District Main Replacement.*
*Cal-Am completed a main replacement program across the nine, geographically distinct service areas in the Sacramento County District with the intent of improving water pressure, quality, and overall system reliability.*²⁶²

Cal Advocates argued that Cal-Am's contingency on this item should be limited to 15%.²⁶³

In the Settlement, Cal-Am agreed to use a 15% contingency for Project I15-600072 as recommended by Cal Advocates.²⁶⁴

- C. *Project I15-600101 – Standby Generator Improvements Program (2021-2026).* *Cal-Am claims that with the increasing number of PSPS events, additional systems in the Sacramento County District have been added to those identified in 2016 as in need of redundant power resources, and that the costs and needs of the*

²⁶¹ D.10-10-018 found that "After the contaminated plant is replaced, remediation has occurred, and all recoverable costs have been determined, the remaining amount of contamination proceeds arising from damage awards, settlements, government order and insurance proceeds may be shared between ratepayers and shareholders on a case-by-case basis under a framework for analysis provided in [Table 2 and Appendix D] of this decision." (at 3.)

Ordering Paragraph 3 of D.10-10-018 directed all investor-owned water utilities to account for local or federal grants, government loans, damage awards, settlements, government ordered funds and insurance proceeds used to replace contaminated water supplies as Contributions in Aid of Construction (CIAC).

²⁶² A.19-07-004, Capital Projects Workpapers Tab 82; Application 100-Day Update, Attachment 3 at 910, 912, and 934; Exhibit CAW-3 at 90-91, 133-134, 216-217, and Attachment 1; and Exhibit CAW-5 at 29-30 and 33-34.

²⁶³ Exhibit CalPA-5C at 2 and 27-28.

²⁶⁴ Settlement at 66 and Attachment C-4.

*proposed incremental systems were based on the 2016 report's findings.*²⁶⁵

Cal Advocates argued that only three of the 11 proposed generator project candidates in the Sacramento District should be constructed, and two generators should be relocated as described in the 2016 report. Cal Advocates further argued that any additional generators should be contingent upon Cal-Am's completion of a portable generator and power shutoff study.²⁶⁶

Cal-Am opposed Cal Advocates' proposed budget reduction and argued that its proposed Sacramento District generator program was necessary to ensure reliable water service during emergencies and power interruptions.

*D. Project I15-600032 – Walerga Road Bridge Pipeline. Cal-Am is seeking authority to file an advice letter to get approval for cost recovery of up to \$1.5 million associated with installing a new pipeline within the box girder of the new bridge, while abandoning the existing water pipeline at this location.*²⁶⁷

Cal Advocates argued that Cal-Am is accounting for the costs of this project elsewhere in its workpapers in this GRC request, so it should not be authorized to file a separate advice letter seeking further recovery of these costs.²⁶⁸ Cal-Am agreed these costs are already included in the projected revenue requirement in Cal-Am's RO Model; and the Settlement reflects this acknowledgement by Cal-Am.²⁶⁹

²⁶⁵ A.19-07-004, Capital Projects Workpapers, Tab 92; Exhibit CAW-3 at 215, 222-223, and Attachment 1.

²⁶⁶ Exhibit CalPA-5C at 33-38, 42, and Attachment 2; Exhibit CalPA-9C at 3-4 and 20-26.

²⁶⁷ A.19-07-004, Capital Projects Workpapers, Tab 78; Application 100-Day Update Attachment 3 at 921 and 938; Exhibit CAW-3 at 151-152 and Attachment 1.

²⁶⁸ Exhibit CalPA-4 Attachment 7; Exhibit CalPA-5 at 2,4, and 2-30.

²⁶⁹ Exhibit CAW-22 at 66; Settlement at 67.

E. *Project I15-600102 – Service Saddle Replacement Program (2021-2026). Cal-Am proposed a \$4.5 million project over 2021-2023, or \$1.5 million per year, to replace the single strap saddles in this district to minimize the ongoing repair work and the potential for future leaks.*²⁷⁰

Cal Advocates recommended that Cal-Am's requested 2021-2022 budget for saddle service replacement be reduced to align with historic costs for similar replacements in the service territory.²⁷¹ Cal-Am agreed to Cal Advocates' proposed scope and budget modifications, as reflected in Attachment C-4 of the Settlement.²⁷²

F. *Project I15-600103 – Suburban Rosemont Hydraulic Improvement. Cal-Am proposes to spend \$3,450,000 in 2021-2023 for a project to construct a booster pump station and pressure sustaining valves with new vaults that would physically separate the area in the eastern portion of the Sacramento system and address the water supply constraints that currently exist in the suburban Rosemont area.*²⁷³

Cal Advocates recommended reducing Cal-Am's proposed direct cost to \$1,469,377 in the 2021-2022 period to address redundant contingency costs in the project proposal.²⁷⁴

In the Settlement, Cal-Am agreed to Cal Advocates recommended total capital expenditure for this project.²⁷⁵

²⁷⁰ A.19-07-004, Capital Projects Workpapers, Tab 93; Exhibit CAW-3 at 215, 224, and Attachment 1.

²⁷¹ Exhibit CalPA-5C at 33-34 and 40-42.

²⁷² Exhibit CAW-17 at 11; Settlement at 68 and Attachment C-4.

²⁷³ A.19-07-004, Capital Projects Workpapers, Tab 94; Exhibit CAW-3 at 215, 225-226, and Attachment 1; Exhibit CAW-5 at 3-4.

²⁷⁴ Exhibit CalPA-5C at 33-34, 38-39, and 42.

²⁷⁵ Exhibit CAW-17 at 2; Settlement at 69 and Attachment C-4.

G. *Project I15-600099 – Well Rehabilitation Program (2021-2026).* Cal-Am proposes to spend \$4.5 million in 2021-2023, or \$1.5 million per year, to fund well rehabilitation projects that will, among other benefits, increase the Sacramento District's system reliability; avoid catastrophic failures; extend the useful life of the existing well facilities; and improve operability, site safety, and customer satisfaction.²⁷⁶

Cal Advocates noted that six of the well rehabilitation projects proposed by Cal-Am for this project have already been completed and recommended a reduction of the 2021-2022 budget to account for those already-completed projects.²⁷⁷

In the Settlement, Cal-Am agreed to Cal Advocates' recommended budget and scope modifications, including the reduced 2021-2022 budget.²⁷⁸

10.6.3. Discussion on Sacramento County Disputed Projects

We find the Settlement reaches compromises on the Sacramento County disputed projects described above that are reasonable in light of the whole record, consistent with the law, and in the public interest. Regarding the outstanding costs associated with the Nut Plains Well PFOA Treatment, Cal-Am shall file a Tier 2 Advice Letter if and when it seeks approval of its proposed recovered cost allocation within 90 days of receiving any proceeds from its ongoing lawsuit with the Air Force, as provided in the Settlement.²⁷⁹

Cal-Am has experience completing main replacement programs across its various service areas in California and Sacramento County. Therefore, Cal-Am

²⁷⁶ A.19-07-004, Capital Projects Workpapers, Tab 90; Exhibit CAW-3 at 215, 220-221, and Attachment 1.

²⁷⁷ Exhibit CalPA-5C at 33-34 and 41-42.

²⁷⁸ Exhibit CAW-17 at 2 and Settlement at 69 and Attachment C-4 at 224.

²⁷⁹ Settlement at 65.

shall implement the 15% contingency for the Sacramento District Main Replacement program agreed upon in the Settlement.

As previously discussed in Sections 7.13, 10.1.2, 10.3.2, and 10.4.2 above, the Settlement adopts Cal Advocates' proposal to require Cal-Am to prepare a Portable Generator Planning Study to identify alternatives to stationary generators where feasible. Cal-Am shall conduct and complete a study on alternatives to stationary generators at facilities across its California service territory before recovering costs for non-portable generators. Recovery of stationary and/or portable generator costs in the Sacramento County District may be considered further in a future GRC once the Portable Generator Planning Study is complete.²⁸⁰ Cal-Am shall not file a Tier 2 Advice Letter seeking to recover additional costs related to its Walegra Road Bridge Pipeline project and shall adopt the budget for service saddle replacement provided in the Settlement, which aligns with recent costs for similar projects in the Sacramento County District.

Further, Cal-Am shall limit its total capital expenditure for the Sacramento County Disputed Projects to those provided in Attachment C-4 of the Settlement, which remove redundant contingency costs related to the Suburban Rosemont Hydraulic Improvement project and costs associated with already completed well rehabilitation projects.

10.6.4. Sacramento County Recurring Projects

Cal-Am requested an estimated direct cost for Sacramento County District Recurring Projects (RP) of \$4,393,166 in 2021, and \$4,499,442 in 2022.

²⁸⁰ Settlement at 66-67 and Attachment B-6.

Cal Advocates did not dispute any of the proposed RPs in the Sacramento County District but recommended a lower total direct cost of \$3,421,639 in 2021, and \$3,503,514 in 2022.

Cal-Am argued that its requested RP budget is justified because it anticipates increased ongoing, routine, and emergency capital maintenance costs.²⁸¹

The Settlement adopts Cal Advocates' lower recommended budgets and requires Cal-Am to reflect its annual RP budget amounts for the Sacramento County District in its UPIS for each year.²⁸²

We have reviewed the record of this proceeding concerning the Sacramento County District recurring projects and find the compromises provided in the Settlement are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am's speculated increases in ongoing, routine, and emergency capital maintenance costs were not supported by its testimony. Cal Advocates' proposed budgets are more in line with historic RP costs in the Sacramento County District, and Cal-Am shall adopt them as provided in the Settlement. Cal-Am maintains flexibility to manage the overall RP budget in Sacramento County to allocate different spending levels to specific line items as necessary, consistent with the authority granted in D.18-12-021.

²⁸¹ Exhibit CAW-17 at 3-7 and 35.

²⁸² Settlement at 70.

10.7. Larkfield District**10.7.1. Larkfield District Non-Disputed Projects**

Section 8.7.1 identified projects in the Larkfield District that were not disputed by parties in this proceeding.²⁸³ We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Monterey County Wastewater District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.7.2. Larkfield District Disputed Projects

The Settlement provides compromises reached to address the issues associated with Cal-Am's proposed Larkfield District projects that were disputed by parties in testimony, as detailed below.

- A. *Project I15-610015 – Larkfield Main Replacement Program.*
*Cal-Am requested \$2,046,000 in 2021-2022 for this proposed project to replace mains that were identified in the 2019 Sonoma County District Comprehensive Planning Study and Buried Infrastructure Condition Based Assessment.*²⁸⁴

Cal Advocates argued that the 2021-2022 Main Replacement Program budget should be \$1,110,797, and that Cal-Am should prioritize the main replacement projects identified in Cal-Am's 2018 Conditional Based Assessment report.²⁸⁵

²⁸³ *Ibid* at 70-71.

²⁸⁴ A.19-07-004, Capital Projects Workpapers, Tab 44; Exhibit CAW-3 at 231-232, Attachment 1.

²⁸⁵ Exhibit CalPA-5C at 2, 27-28, 44-46, and 53.

In the Settlement, Cal-Am agreed to Cal Advocates' proposed budget and scope for this project.²⁸⁶

*B. Project I15-610018 – Larkfield Tank Rehabilitation and Seismic Upgrades. Cal-Am requested \$818,400 in 2021-2022 for a tank rehabilitation and seismic upgrade project that will include the preparation of an evaluation of the structural integrity of the tanks in the Larkfield District and the identification and design of seismic upgrades for each specific tank. Cal-Am intends to implement the upgrades during the scheduled maintenance cycles for the tanks in the Larkfield District.*²⁸⁷

Cal Advocates argued that some of Cal-Am's requested costs are duplicative and should be included in the deferred tank maintenance budget.

In the Settlement, Cal-Am agreed to Cal Advocates' proposed modifications to this project's budget and scope.²⁸⁸

*C. Project I15-610002 – Faught Road Well. Cal-Am sought approval to submit an advice letter to recover \$2,504,133 to construct a 150 gpm production well and install 1,500 feet of 6-inch raw water main from the new well to the Larkfield water treatment plant.*²⁸⁹

Cal Advocates argued that this project is not necessary at this time, and if Cal-Am decides this project is necessary in the future, it should request recovery of the completed project costs in a subsequent GRC.²⁹⁰

Cal-Am agreed that the 2017 Tubbs Fire resulted in a decrease in demand in the Larkfield District. Accordingly, in the Settlement, Cal-Am agreed to

²⁸⁶ Exhibit CAW-17 at 2, Settlement at 71 and Attachment C-4.

²⁸⁷ A.19-07-004, Capital Projects Workpapers, Tab 7; Exhibit CAW-3 at 231, 235, and Attachment 1.

²⁸⁸ Exhibit CAW-17 at 2; Settlement at 72 and Attachment C-4.

²⁸⁹ Application 100-Day Update, Attachment 3 at 912 and 938; Exhibit CAW-3 at 152-153 and Attachment 1; Exhibit CAW-9 Attachment 1.

²⁹⁰ Exhibit CalPA-4 at 11, 14, 37-40, and 48.

exclude these project costs from this GRC but reserves Cal-Am's ability to request recovery of this project in a subsequent GRC.²⁹¹

*D. Project I15-610014 – Larkfield Wildfire Recovery (Facilities) and Project I15-610023 – Larkfield Wildfire Recovery (Meters and Services). Cal-Am requested \$7.5 million to rebuild infrastructure for the nearly 25% of the Larkfield water system customers that had their homes, businesses, and other utilities destroyed by the 2017 Tubbs Fire. The estimated cost includes Cal-Am's expenditures on this project through December 2018 totaling \$4.05 million.*²⁹²

Cal Advocates argued that the Commission should not allow the \$7.5 million requested in 2020 until the insurance claims are complete.²⁹³

Cal-Am provided updated information regarding its Larkfield Wildfire insurance claims in rebuttal, illustrating that the final claim for its Larkfield Wildfire insurance provided a total of \$1,206,275.92 related to lost or damaged assets and \$70,433.00 related to lost revenues. Cal-Am stated that no further reimbursement is forthcoming because the March 20, 2020, agreement was the final sign-off on this insurance claim.²⁹⁴

The Settlement provides that the portion of the insurance claim related to lost or damaged assets should be netted against the total project cost, and the net forecasted capital spend should be allowed for inclusion in rate base, with the

²⁹¹ Settlement at 73 and Attachment C-4.

²⁹² A.19-07-004, Capital Projects Workpapers, Tab 3; Application 100-Day Update, Attachment 3 at 925 and 940; Exhibit CAW-3 at 160-161 and Attachment 1; Exhibit CAW-6 at 39-40; Exhibit CAW-14 at 16-18.

²⁹³ Exhibit CalPA-4 at 10, 12, 28-30, 47, and 59; Exhibit CalPA-5C at 76, 83-86, and Attachment 69.

²⁹⁴ Exhibit CAW-17 at 38-40; Exhibit CAW-22 at 59-60; Exhibit CAW-25 at 60-64.

total capital expenditure for this project set forth in Attachment C-4 of the Settlement.²⁹⁵

10.7.3. Discussion on Larkfield Disputed Projects

We find the Settlement provides compromises on the Larkfield District disputed projects that are reasonable in light of the whole record, consistent with the law, and in the public interest.

The Settlement reduces Cal-Am's proposed budget for the Larkfield District disputed projects to (1) prioritize main replacement projects already identified by Cal-Am's Conditional Base Assessment report; (2) remove duplicative tank maintenance costs; (3) exclude costs that are not necessary due to system impacts related to the 2017 Tubbs Fire; and (4) reflect wildfire insurance claims Cal-Am has received to recoup lost assets and revenues.

Cal-Am shall recover the costs for the projects described in Section 10.7.2 above, as provided in Attachment C-4 of the Settlement.

10.8. Recurring Projects – Corporate General Office

Cal-Am requested a total estimated direct cost for Corporate General Office (GO) RPs of \$5,494,844 in 2021 and \$5,632,153 in 2022.²⁹⁶

Cal Advocates recommended that Cal-Am should be required to separate all costs for unique software application projects into individually identifiable investment projects in future GRC filings.²⁹⁷

²⁹⁵ Settlement at 73-74 and Attachment C-4.

²⁹⁶ Exhibit CAW-3 at 19-28 and Attachment 2.

²⁹⁷ Exhibit CalPA-5 at 17-23.

The Settlement sets forth a compromise to adopt Cal-Am's proposed direct capital expenditures for Corporate GO RPs identified above, with the annual amounts reflected in each respective year's UPIS.

We have reviewed the record of this proceeding concerning the corporate GO RPs and find the compromises on these issues provided in the Settlement are reasonable in light of the whole record, consistent with the law, and in the public interest. We also share the concern noted by Cal Advocates; thus, Cal-Am shall separately identify costs for unique software application projects in its future GRC filings to allow for better review of the costs associated with individually identifiable investment projects. Cal-Am is authorized to recover the budgets associated with its GO RPs as provided in Attachment C-4 of the Settlement and has the flexibility to re-allocate the approved RP budget for different line-items, if necessary, pursuant to D.18-12-021.

10.9. Used and Useful Assets

10.9.1. Facilities Addressed in D.18-12-021

In D.18-12-021, the Commission found that certain plant facilities and associated parcels of land should be removed from rate base because they no longer provide used and useful service. Cal-Am requested to include some of those identified facilities and parcels in this GRC because (1) the facilities were required by other regulatory agencies; (2) the land houses other facilities that are still used and useful; or (3) there is a plan in place to bring the facilities back into service in this GRC cycle.²⁹⁸ Cal-Am further stated that some of the facilities

²⁹⁸ Application 100-Day Update at 6 and Attachment 1 at 50-54, 161-165, 275-279, 388-392, 502-506, 638-642, 765-769, and 880-884.

identified by D.18-12-021 would be retired and are reflected as such in the RO Model.²⁹⁹

Cal Advocates opposed Cal-Am's request to include the Roanoke and Fish Canyon facilities in rate base, because it is unclear whether they will be returned to service in this GRC cycle. Cal Advocates also identified the Scotland Well, Wittkop Well, and Sutter Gold Well as having been disconnected or destroyed in 2019 and suggested they should be removed from rate base.³⁰⁰

Cal-Am agreed with Cal Advocates' recommended removal of the Scotland Well, Wittkop Well, and Sutter Gold Well but argued that the Fish Passage and Roanoke facilities will return to service during this GRC cycle and should remain in the rate base.³⁰¹

In the Settlement, Cal-Am agreed not to include the Fish Passage and Roanoke Well, and the associated land parcels, for this GRC cycle, given the uncertain timeline for the two facilities to return to used and useful service. Because there is a definite plan for returning the two facilities to use, the Settlement would move the assets to Cal-Am's Uniform System of Accounts (USOA) Account #100-4: Utility Plant Held for Future Use for this GRC cycle.³⁰²

10.9.2. "TBD" Land Identified in D.18-12-021

The Commission in D.18-12-021 found that Cal-Am failed to demonstrate the used and useful status of certain land and excluded those parcels, valued at up to \$1,135,370, from Cal-Am's Plant and Rate Base. In A.19-07-004, Cal-Am

²⁹⁹ Exhibit CAW-9 at 69-79.

³⁰⁰ Exhibit CalPA-4C at 6-23.

³⁰¹ Exhibit CAW-17 at 23, 27, and 29; Exhibit CAW-22 at 56-57. Cal-Am noted that the retirement of the Scotland Well, Wittkop Well, and Sutter Gold Well facilities was reflected in its 100-Day Update.

³⁰² Settlement at 75 and Attachment C-5.

grouped the same land, termed “TBD” in D.18-12-021, into the following five categories:

1. Used and Useful (\$803,165)
2. Vacant Property – Future Well Site (\$264,811)
3. Vacant Property – Well Abandoned (\$16,922)
4. Vacant Property – Well Inactive (\$47,412)
5. Not Used and Useful (\$3,060)

Cal-Am requested to include the land in the first two categories referenced above in the rate base and excluded from the rate base the land in last three categories.³⁰³

Cal Advocates argued that land in the second category, “Vacant Property – Future Well Site” should not be included in the rate base because it is not currently providing used and useful service.³⁰⁴

Cal-Am argued that the land needed for future well sites should be included, and if the Commission excluded that land for future sites from rate base in this GRC, it should be brought back into rate base at fair market value at the time it becomes used and useful.³⁰⁵

As a compromise, the Settlement provides that \$803,165 be categorized as “Used and Useful” in rate base for this GRC cycle. The Settlement also recognizes the potential future need for the land categorized as “Vacant Property – Future Well Site,” but does not include it in the rate base in this GRC because the timing for it becoming used and useful is uncertain. Instead, the Settlement provides that the parcels, totaling \$264,811, will be moved to USOA Account

³⁰³ Exhibit CAW-9 at 69-79.

³⁰⁴ Exhibit CalPA-4C at 6-23.

³⁰⁵ Exhibit CAW-17 at 23 and 29; Exhibit CAW-22 at 56-57.

#100-4: Utility Plant Held for Future Use for this GRC cycle. The Settlement also provides that the remaining “TBD” property, totaling \$67,394, be excluded from the rate base.³⁰⁶

10.9.3. Discussion on Facilities and “TBD” land identified in D.18-12-021

We have reviewed the record of this proceeding as it relates to the facilities and properties addressed in D.18-12-021 and find the compromises reached in Settlement in reasonable in light of the whole record, consistent with the law, including D.18-12-021, and in the public interest. Only the land parcels that have been identified as “Used and Useful” by Cal-Am and the Settlement shall be included in the rate base.

Cal-Am shall move the Fish Passage and Roanoke facilities and the associated land categorized as “Vacant Property – Future Well Site” into USOA Account #100-4: Utility Plant Held for Future Use for this GRC cycle. Cal-Am shall not recover any costs associated with the Fish Passage and Roanoke Well, and the associated land parcels in this GRC. The costs associated with Cal-Am’s Fish Passage and Roanoke Well shall be evaluated in a future GRC after the two facilities and associated land parcels return to used and useful service.

10.10. Construction Work in Progress

Cal-Am requested to recover Construction Work in Progress (CWIP) costs for utility plant assets that are already included in the rate base and the forecasted future CWIP expenses based on the latest year-end amount for capital

³⁰⁶ Settlement at 76 and Attachment C-5.

projects, minus the total amount of expenditures on projects that have or will be moved to plant-in-service status in the forecasted year of completion.³⁰⁷

Cal Advocates recommended the CWIP balance should be adjusted to remove any projects that (1) have not been in progress since 2017; (2) are abandoned projects; and/or (3) are tracked in a memorandum account already earning a return on costs incurred.³⁰⁸

Cal-Am agreed that projects tracked in a memorandum account earning a return should be excluded from CWIP, but disputed Cal Advocates' proposed exclusion of the specific projects categorized as "not in progress since 2017" and addressed the status of each project. Cal-Am also disputed the exclusion of the Lamanda Redrill project, which Cal Advocates categorized as "abandoned."³⁰⁹

The Settlement provides a compromised CWIP budget with the following reductions from the budget initially proposed by Cal-Am:

- A. \$409,000 associated with Recurring Project Budgets, because the work has been completed and the projects are used and useful;
- B. \$975,000 related to the Lamanda Well Redrill project;
- C. \$349,250 related to carryover projects in the Los Angeles County District that will be removed from rate base in this GRC;³¹⁰ and

³⁰⁷ Application 100-Day Update at 1, 6, Attachment 1 at 51-52, 162-163, 276-277, 389-390, 503-504, 639-640, 766-767, 811-882 and Attachment 2; Exhibit CAW-9 at 55-58; CAW-11 at 20-22, 27-28.

³⁰⁸ Exhibit CalPA-4 at 50-60.

³⁰⁹ Exhibit CAW-17 at 35-40; Exhibit CAW-22 at 3 and 61-66.

³¹⁰ The Los Angeles County District carryover projects are Los Angeles Santa Fe Well, Winston Well, Longden Well, and Oswego Well. These projects will be excluded from CWIP as it accrues AFDUC effective January 1, 2021.

D. \$3,041,783 related to the Larkfield Wildfire Recovery Project, because CWIP accrues AFUDC so this project should be excluded from that account.³¹¹

We have reviewed the record of this proceeding concerning CWIP and find the Settlement's compromises on these issues are reasonable based on the whole record of this proceeding, consistent with the law, and in the public interest. The Settlement's terms concerning the CWIP budget ensure Cal-Am does not double-account for projects that have already been completed or are accruing AFUDC, and exclude projects that have already been, or will be, removed from rate base in this GRC. Cal-Am shall adopt its proposed CWIP budget less the four exclusions detailed above.

11. Taxes

Cal-Am made numerous requests related to its taxes and related deductions and depreciation rates. Cal Advocates recommended several changes to Cal-Am's requests, and the Settlement provides compromises on the disputed issues as described below.

11.1. Income Taxes

Cal-Am included a deduction for its 2021 federal income tax (FIT) as an expense, based on the amount of its 2020 California Corporate Franchise Tax (CCFT).³¹²

³¹¹ Settlement at 77.

³¹² Application 100-Day Update, Attachment 1, Chapter 6, Tables 6.1 and 6.2, and pages 13, 15, 17, 19, 21, 23, 25, 85, 155-160, 207, 269-274, 382-387, 426, 498-501, 563, 632-627, 685, 759-764, 798 and 874-879; Exhibit CAW-15 at 2-18 and Attachment 1.

Cal Advocates recommended a CCFT deduction based on the actual amount customers will fund in authorized 2020 rates to estimate the 2021 FIT expense.³¹³

Cal-Am argued that its proposed use of forecasted CCFT deduction is more accurate and is also supported by Commission precedent.³¹⁴

In the Settlement, Cal-Am agreed to Cal Advocates' recommended use of the 2020 Commission-authorized CCFT amount for TY 2021.³¹⁵

11.2. Income Taxes – Excess Accumulated Deferred Income Tax

According to Cal-Am, the 2017 Tax Cuts and Jobs Act (TCJA) substantially modified the Internal Revenue Code and changed the calculation of income taxes. Cal-Am requested to amortize the components of the Excess Accumulated Deferred Income Tax (EADIT) related to the TCJA and to use EADIT related assets to calculate the Annual Rate Adjustment Method (ARAM) amortization rate.³¹⁶

The Settlement adopts Cal-Am's proposal to amortize specific components of the EADIT related to the TCJA.³¹⁷

11.3. Income Taxes – Deferred Taxes in Rate Base – Repairs

Cal-Am calculated a deduction related to taxable repairs applicable to certain replacement property by multiplying Cal-Am's projected replacement plant additions for years 2019-2023 by the 10-year average (2008-2017) of the

³¹³ Exhibit CalPA-1 at 1-3.

³¹⁴ Exhibit CAW-26 at 1-3.

³¹⁵ Settlement at 78.

³¹⁶ Exhibit CAW-15 at 7-8.

³¹⁷ Settlement at 79.

actual tax repairs deduction to replacement plant additions as taken on Cal-Am's filed tax returns.³¹⁸

Cal-Am noted that the federal Internal Revenue Service (IRS) has not indicated it intends to change its normalization rules for accounting for deferred income taxes, including any excess deferred income taxes in this proceeding.³¹⁹

The Settlement adopts the deduction calculation methodology proposed by Cal-Am.³²⁰

11.4. Taxes Other Than Income

Cal-Am estimated its payroll tax expenses using the same tax rates and cap used in its last GRC and proposed to include an \$84 per employee penalty for the California Unemployment Insurance Fund to account for a previous state deficit to the Federal fund. Cal-Am also requested to recover forecasted expenses related to franchise fees and ad valorem taxes.³²¹

Cal Advocates opposed the proposed \$84 per employee penalty because Cal-Am, in its opening testimony, initially projected a positive balance for the California Unemployment Insurance Fund at the end of 2020.³²²

The Settlement sets forth an agreement to adopt Cal-Am's requested penalties for the California Unemployment Insurance Fund, after considering the current COVID-19 pandemic and the associated ongoing economic challenges.³²³

³¹⁸ Exhibit CAW-15 at 3.

³¹⁹ Exhibit CAW-26 at 4.

³²⁰ Settlement at 79-80.

³²¹ Application 100-Day Update, Attachment 1, Chapter 5, Table 5.1 and at 13, 15, 17, 19, 21, 23, 25, 26, 46-49, 151-154, 265-368, 378-381, 494-497, 628-631, 755-758, and 870-873.

³²² Exhibit CalPA-1 at 4-6.

³²³ Exhibit CAW-26 at 3-4 and Settlement at 80.

11.5. Discussion on Settled Tax Issues

We find the Settlement's compromises on the tax related issues described above to be reasonable in light of the whole record, consistent with state and federal law, in the public interest. We find Cal-Am's argument that D.89-11-058 did not consider the more sophisticated technology and computation tools available today has merit. We therefore direct Cal-Am to propose a clear forecast for its TY FIT and CCFT deductions and provide a detailed methodology for the relevant calculations, in its next GRC.

However, we do not modify the Settlement's term on the FIT issue for this GRC. Instead, we direct Cal-Am to base its TY 2021 CCFT deduction on the actual expense amount Cal-Am recovered from ratepayers to cover the utility's 2020 FIT, as agreed to in the Settlement. Cal-Am shall amortize the components of the EADIT related to the TCJA and may use EADIT related assets to calculate the ARAM amortization rate. Note, Cal-Am is not authorized to recover costs associated with PowerTax software implementation, pursuant to D.18-12-021.³²⁴ The methodology related to deferred income taxes agreed upon in the Settlement reflects the current IRS rules, and Cal-Am shall calculate a deduction for taxable repairs based on its projected replacement plant additions in years 2019-2023 and the 10-year average of actual tax repairs deductions over the years 2008-2017.

Further, Cal-Am is authorized to include an \$84 per employee penalty for the California Unemployment Insurance Fund in light of the ongoing challenges associated with the COVID-19 pandemic.

³²⁴ D.18-12-021 found that Cal-Am failed to provide forecasts for TCJA implementation costs and did not prove the expected costs could be substantial, and denied CAW's requests to track TCJA implementation costs, including any related implementation of PowerTax software, in a memorandum account for future recover. (D.18-12-021 at 128-129.)

12. Rate Base

12.1. Inclusion of Meadowbrook Utility Plan Acquisition Adjustment

Cal-Am requested to amortize \$1,869,520 over a 40-year period, starting January 1, 2018, for a Utility Plan Acquisition Adjustment (UPAA) associated with its Meadowbrook acquisition, adjusted for taxes. Cal-Am stated that it did not include this UPAA in its Utility Plant in Service accounting, so this separate addition is necessary and that this treatment is consistent with D.16-12-014 and D.18-12-021.³²⁵

Cal Advocates did not directly address this issue in its testimony, and the Settlement adopts Cal-Am's request to include the Meadowbrook UPAA in rate base.³²⁶

We have reviewed the record of this proceeding and find the Settlement, as it relates to the Meadowbrook UPAA and Cal-Am's proposed amortization rate, is reasonable in the light of the whole record on this issue, consistent with the law, and in the public interest. The treatment Cal-Am proposed, which is adopted in the Settlement, aligns with Commission directives in D.16-12-014 and D.18-12-021. Cal-Am shall amortize the costs related to its UPAA associated with the Meadowbrook acquisition over 40 years, starting January 1, 2018.

12.2. Depreciation

Cal-Am used the straight-line, average remaining life depreciation system to calculate the annual and accrued depreciation proposed in its application.³²⁷

³²⁵ Exhibit CAW-4 Dana Errata Direct at 31-32 and Attachment 3.

³²⁶ Settlement at 81.

³²⁷ Application 100-Day Update, Attachment 1, Chapter 8, Tables 8.1-8.2, and at 13, 15, 17, 19, 21, 23, 25, 26, 57-61, 168-172, 282-286, 395-399, 509-513, 645-649, 722-776, and 887-891; Exhibit CAW-11 Pourtaherian Direct at 19. The Commission's "Standard Practice for

Footnote continued on next page.

The Settlement adopts Cal-Am's proposed depreciation rate, and notes that any difference between Cal-Am's and Cal Advocates' previously proposed depreciation expense were due to differences in forecasted depreciable plant in service, which depends on recommended plant additions.

We find the Settlement reached a compromise on depreciation rates that is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. The straight-line, average remaining life depreciation system is an appropriate methodology to calculate the annual and accrued depreciation for this GRC, and we adopt the depreciation rates illustrated in Attachment C-1 of the Settlement.³²⁸ We also adopt Cal Advocates' recommendation regarding compliance with requirements established in D.18-12-021 related to future depreciation rates. Cal-Am shall provide all of the future depreciation study information identified in D.18-12-021 when it files its next GRC, including analyses and explanations of causes for any increases in the depreciation rate; (2) comparison and analysis of current and proposed depreciation rates, net salvage rates, and service lives of each asset group; and (3) the proposed methodology for computation of the annual depreciation rate.³²⁹

Determination of Straight-Line Remaining Life Depreciation Accruals" (Standard Practice U4W) provides average ranges of equipment service life for different types of utilities, including water systems.

³²⁸ Settlement at 81 and Attachment C-1.

³²⁹ D.18-12-021 found that Cal-Am did not justify its requested increase in depreciation expense, and found that Cal-Am "must provide additional information, including but not limited to: (1) analyses and explanations of the drivers and causes for the increases, which possibly would also include the percentage increase attributed to each driver; (2) comparison and analysis of current and proposed depreciation rates, net salvage rates, and service lives of each asset group, and (3) computation of the annual depreciation rate." (D.18-12-021 at 201.)

12.3. Allowance for Working Cash

Cal-Am calculated its proposed allowance for working cash made up of two categories, operational working cash and lead lag, using the methodologies identified in Standard Practice U-16-W. Cal-Am also proposed to include specific regulatory assets, net of any regulatory liabilities, in operational working cash.³³⁰

Cal Advocates recommended that the Commission exclude surcharge accounts and miscellaneous receivables for operational working capital. Cal Advocates also recommended that non-expense and non-cash items be removed, including Commission fees, franchise tax, estimated depreciation expense, and estimated deferred income taxes.³³¹

Cal-Am disagreed with Cal Advocates' proposal to exclude non-cash and non-expense items and recommended including certain regulatory assets in the calculation of the allowance for operational working cash and the allowance for working cash related to lead-lag. Cal-Am did not oppose Cal Advocates' recommendation to remove two non-expense items – franchise fees and Commission fees – from calculating the allowance for working cash related to lead-lag.³³²

³³⁰ Application 100-Day Update, Attachment 1, Chapter 9, Table 9.1 and at 63-64, 174-175, 288-289, 401-402, 515-516, 651-652, 778-779, and 893-894; Exhibit CAW-11 Section VIII at 28, 33-41 and Attachment 1.

³³¹ Exhibit CalPA-2 at 2-9 and Attachments 1 and 2.

³³² Exhibit CAW-24 Pourtaherian Rebuttal Section III at 1-10 and Attachment 1.

The Settlement sets forth an agreement to:

- A. Remove several specific regulatory assets, net of regulatory liabilities and deferred income taxes, from the calculation of the allowance for operational working cash;³³³ and
- B. Use the same methodology the Commission prescribed for this issue in D.20-12-007, which allows for the inclusion of non-expense and non-cash items in the calculation of allowance for working cash.³³⁴

We have reviewed the record of this proceeding as it relates to the calculation of allowance for working cash and find the compromise provided in the Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall exclude the agreed-upon expenses when calculating the allowance for operational working cash for this GRC cycle and shall use the methodology approved in D.20-12-007 as it relates to the inclusion of deferred income taxes, depreciation expenses, and uncollectible expenses in the calculation of the allowance for working cash.

13. Memorandum and Balancing Accounts

13.1. Consolidated Expense Balancing Account (CEBA)

Cal-Am's CEBA is intended to consolidate the amortization of Commission-approved balancing and memorandum accounts where appropriate. Cal-Am requested to be allowed to continue the existing CEBA as authorized in D.18-12-021 and to recover any additional incremental balances or to refund any over collections separately, as addressed further in Section 12.7 of

³³³ Settlement at 82-83 and Exhibit CAW-11 at 28.

³³⁴ Settlement at 82-83 and D.20-12-007 Section 4.5 at 35-38, Conclusions of Law 21-23, and Ordering Paragraphs 20-21.

the Settlement. Cal-Am stated that it agreed with Cal Advocates to consolidate its CEBA accounts to align with its consolidated tariff areas.³³⁵

Cal Advocates argued that Cal-Am failed to calculate the CEBA surcharge net of refundable amounts and that it failed to exclude amounts that were previously authorized or pending in other open proceedings.

Cal-Am suggested that Cal Advocates erred in calculating its CEBA balance and adjusted its request as it relates to specific balancing and memorandum accounts in rebuttal testimony.

Under the terms of the Settlement:

- A. The CEBA account remains open;
- B. The final balance, once it is determined, should be amortized;
- C. The final balance to be amortized will depend on the disposition of all other balancing and memorandum accounts to be transferred into the CEBA in this GRC; and
- D. Cal-Am will transfer \$12,639,314 to the CEBA for recovery from multiple balancing and memorandum accounts, as discussed in detail below.³³⁶

Further discussion concerning the individual accounts and balance amounts to be transferred follows.

13.2. NOAA/ESA Memorandum Account

Cal-Am tracks compliance payments it makes to the National Oceanic and Atmospheric Association (NOAA) or its designated payee for Endangered Species Act (ESA) mitigation. In this GRC, Cal-Am did not seek recovery of the

³³⁵ Exhibit CAW-4 Direct at 3-30 and Attachments 1 and 2. CAW's proposed consolidated tariff areas are Southern Division, Northern Division, Monterey Service Area, and the Central Satellite Service Area.

³³⁶ Settlement at 83-85. Disposition of the specific balancing and memorandum accounts is included *infra*.

account balance but requested to keep this account open to seek future recovery of the annual payments through a Tier 2 Advice Letter process.³³⁷

Cal Advocates recommended this memorandum account be closed, effective December 31, 2021, based on the compliance deadline established in the State Water Resources Control Board's revised cease and desist order and the completion of Project I15-400049 – Los Padres Dam Fish Passage Project.³³⁸

Cal-Am argued that a full water supply solution will not be complete by the end of 2021, due to circumstances beyond its control, and therefore the account should stay open to track compliance payments beyond December 31, 2021.³³⁹

The Settlement adopts Cal-Am's initial request to keep the NOAA/ESA memorandum account open and to recover future annual payments through a Tier 2 Advice Letter, consistent with D.18-12-021.³⁴⁰

In the Cal-Am-MPWMD Settlement, MPWMD also agreed this account should remain open during this GRC cycle.³⁴¹

13.3. San Clemente Dam Balancing Account

Cal-Am uses its San Clemente Dam Balancing Account to track authorized costs related to the Carmel River Reroute and San Clemente Dam Removal Project, which was approved in D.12-06-040. Cal-Am requested to recover the

³³⁷ Application 100-Day Update at 5; Exhibit CAW-3 Crooks Direct at 153-157; Exhibit CAW-4 Dana Errata Direct at 3-4 and Attachment 1.

³³⁸ Exhibit CalPA-4 Goldberg Testimony at 41-43 and Attachments 2 and 3; Exhibit CalPA-6E Nagesh Errata Public Testimony at 54-59, 70-71, and Attachments 55, 56, and 69.

³³⁹ Exhibit CAW-18 at 20; Exhibit CAW-22, at 61.

³⁴⁰ Settlement at 86-87; D.18-12-021 at 221-222.

³⁴¹ MPWMD – Cal-Am partial settlement at 17-18.

balance in this account consistent with the directives adopted by the Commission in D.18-12-021.³⁴² No party opposed this request. The Settlement sets forth an agreement to keep this account open for this GRC cycle.

13.4. WRAM/MCBA

Cal-Am's WRAM balancing account tracks the difference between the fixed costs authorized by the Commission, which are recovered through the quantity charge revenues, and the total fixed cost revenues recovered through the quantity charge based on actual sales. Cal-Am's MCBA account tracks the difference between the total variable cost quantity charge revenues received from customers and the actual payments made to service provided for purchased water, power, and pump taxes. Cal-Am requested to (1) continue these accounts; (2) recover the quantity rate revenues not billed due to the October 2017 Larkfield District wildfires; (3) consolidate the WRAM/MCBA accounts to align with consolidated service areas as requested in Special Request #7; and (4) recover leak adjustments through the WRAM as requested in Special Request #4.³⁴³

Cal Advocates recommended the Commission postpone Cal-Am's request to recover costs and lost revenue related to the Larkfield District Wildfires until all insurance claims are settled.³⁴⁴ Cal Advocates also argued that a portion of the balance of costs and lost revenue related to the wildfires in the Larkfield District were already authorized in the disposition of Cal-Am's Advice Letter 1198 in 2018.³⁴⁵

³⁴² Exhibit CAW-4 at 4-7 and Attachments 1-2; Exhibit CAW-15 at 5 and 6.

³⁴³ Exhibit CAW-4 at 7-8 and Attachment 1.

³⁴⁴ Exhibit CalPA-6E Nagesh Errata Public at 54-59, 75-76, and Attachments 55, 56, and 69.

³⁴⁵ Cal-Am Advice Letter 1198 was approved in June 2018 with an effective date of 3/31/2018. It authorized Cal-Am to recover under collection of revenues associated with prior balances in

Footnote continued on next page.

Cal-Am clarified that it has signed off and received approval of the final insurance proceeds related to the Larkfield District wildfires, and all insurance proceeds reflected in its GRC request are final. Further, Cal-Am noted that its request in this GRC application is to transfer the balance approved for recovery in Advice Letter 1198 to the CEBA for recovery statewide, instead of solely from Larkfield District customers.³⁴⁶

Rather than litigating this issue, the Settlement adopts Cal-Am's requested disposition and recovery of the 2017 Larkfield Wildfire related account through the CEBA on a statewide basis and to recover the account's \$633,317 under-collected balance as of May 31, 2019, to the CEBA for recovery on a statewide basis. Further, the Settlement provides that additional quantity revenues associated with customers impacted by the 2017 Larkfield wildfires be transferred to the CEBA for review in Cal-Am's next GRC.

MPWMD objected to the statewide recovery of costs associated with the 2017 Larkfield District wildfires and requested that Cal-Am customers in the Monterey District be exempt from any rate increases associated with this and other similar requests in the future.³⁴⁷

13.5. ESA Memorandum Account

Cal-Am's ESA Memorandum Account tracks costs associated with ESA requirement compliance beyond those tracked in the San Clemente Dam Balancing Account discussed in Section 13.3 above. Cal-Am requested to

the WRAM/MCAB account in Larkfield District, along with additional under-collections associated with load reduction related to the 2017 wildfires in the Larkfield District.

³⁴⁶ Exhibit CAW-18 Dana Errata Rebuttal at 5, 13, and Attachment 4.

³⁴⁷ MPWMD Opening Brief at 9.

continue the account and transfer the current balance to the Monterey District CEBA.³⁴⁸

Cal Advocates recommended removing some costs related to the Los Padres Fish Passage Project and the balance authorized for recovery in Cal-Am's most recent GRC and suggested the account should be closed with the approval of this GRC.³⁴⁹

Cal-Am agreed to remove \$615,755 in costs associated with the Los Padres Dam Fish Passage Project and include them in utility plant in service, while reiterating its position that this account should remain open.³⁵⁰

Rather than litigating this issue, the Settlement sets forth an agreement to keep the ESA memorandum account open, and adopts an offset credit identified in Cal Advocates testimony that reduces the amount to be transferred to the CEBA for recovery.³⁵¹

13.6. School Lead Testing Memorandum Account

Cal-Am's School Lead Testing Memorandum Account tracks its incremental expenses associated with lead monitoring and testing at kindergarten through 12th grade schools throughout its service territory, as required by the SWRCB Division of Drinking Water. Cal-Am requested to keep this account open and to transfer the existing account balance of \$(9,101) to the CEBA for recovery.³⁵² No party objected to Cal-Am's request.

³⁴⁸ Exhibit CAW-4 at 8-9 and Attachment 1.

³⁴⁹ Exhibit CalPA-6E at 54-59, 71-72, and Attachments 55 and 56.

³⁵⁰ Exhibit CAW-18 at 5, 9-11, and Attachment 2.

³⁵¹ Settlement at 89; MPWMD-Cal-Am partial settlement at 17-18.

³⁵² Exhibit CAW-4 at 9 and Attachment 1.

The Settlement adopts Cal-Am's request to transfer \$(9,101) to the CEBA for cost recovery and to keep this account open.³⁵³

13.7. Two-Way Tax Memorandum Account

Ordering Paragraph 18 of D.18-12-021 established Cal-Am's two-way tax memo account (TMA) intended to track (1) changes in permanent tax items and rate effects; (2) differences between tax expenses authorized and tax expenses incurred from mandatory and elective tax law changes, or other tax accounting, procedural, or policy changes; (3) the excess protected ADIT through the end of 2018; and (4) bonus depreciation associated with assets where eligibility for bonus depreciation is uncertain because construction started before the contract was signed. Cal-Am requested to close this account and transfer the remaining balance of \$(104,563) to the CEBA for recovery.

Cal-Am stated that this TMA is no longer necessary, but that if the Commission believes a TMA is necessary for this GRC cycle, this decision should reaffirm that a TMA is not intended to be a true-up mechanism for taxes. Cal-Am states that such reaffirmation is necessary to remain consistent with the Commission's existing policy and would ensure the differences between forecasted and actual tax expenses would continue to flow to Cal-Am's bottom line for each taxable year.³⁵⁴ No party opposed this request.

The Settlement provides that:

- A. Cal-Am should continue the components of the TMA related to excess ADIT pay-back;

³⁵³ Exhibit CalPA-6E at 54-59, 78, and Attachments 55, 56, and 69; Settlement at 90.

³⁵⁴ Exhibit CAW-4 at 9-10 and Attachment 1; Exhibit CAW-15 at 10-15; Exhibit CAW-18 at 5-6. CAW directly referenced Commission decisions in D.85-05-036 and D.17-05-013 as indication of what it refers to as "the Commission's longstanding policy" related to tax accounting true-ups.

- B. Cal-Am should close the bonus depreciation and other tax changes portions of this account as of December 31, 2020; and
- C. Cal-Am should recover the existing account balance associated with those portions of the account through the CEBA.

13.8. LIRA Balancing Account

Cal-Am's Low-Income Ratepayer Assistance Program (LIRA) Balancing Account was adopted in D.15-04-007 and continued in D.18-12-021, to track revenues and recoveries associates with the LIRA, or CAP, offered in each service district. Cal-Am requested to continue the LIRA Balancing Account as previously approved, which allows for annual adjustments to the surcharge to ensure Cal-Am is fully recovering or refunding any over- or under-collected balances.³⁵⁵ No party opposed this request.

The Settlement sets forth an agreement to continue this account using the previously-authorized adjustment process for establishing surcharges.³⁵⁶

13.9. California American Water Conservation Surcharge Balancing Account

The California American Water Conservation Surcharge (CAWCS) One-Way Balancing Account is currently in effect for all districts to track conservation-related expenses and surcharges related to Cal-Am's conservation programs. Cal-Am requested to continue the account and transfer the current under-collected account balance of \$874,755 to the CEBA for recovery from all customers statewide.³⁵⁷

³⁵⁵ Exhibit CAW-4 at 10 and Attachment 1.

³⁵⁶ Exhibit CalPA-6E at 54-59, 77, and Attachments 55 and 56; Settlement at 91.

³⁵⁷ Exhibit CAW-4 at 10-11 and Attachment 1.

Cal Advocates recommended this account be closed and that the Commission should instead direct Cal-Am to include its conservation budget in base rates.³⁵⁸

Cal-Am agreed that it could close this account if it could include the conservation budget through base rates but argued that previously-authorized amounts must to be transferred to the CEBA for recovery.

To align with requirements adopted in D.18-12-021, Cal-Am filed Tier 2 Advice Letter 1322 (AL 1322) on February 16, 2021, which provided a full accounting of conservation funds spent, with supporting documentation, and a proposal to refund any unspent funds to customers through the CEBA.³⁵⁹ Water Division approved AL 1322 on March 17, 2021, with an effective date of March 18, 2021.

The Settlement sets forth an agreement for Cal-Am to:

- A. Close the CAWCS account, effective December 31, 2020;
- B. Transfer the under-collected balance with interest to the CEBA; and
- C. Transfer and recover through the CEBA any trailing interest charges associated with the CAWCS between December 31, 2020, and the date its GRC implementation advice letter is approved pursuant to this decision.

³⁵⁸ Exhibit CalPA-6E at 54-59, 72-73, and Attachments 55, 56, and 69. Cal Advocates also asserted the balance to be transferred should only be (\$388,209).

³⁵⁹ AL 1322 was a second compliance filing related to Ordering Paragraph of D.18-12-021. Cal-Am requested, and was approved, to return over-collected conservation balances to be returned to customers through a meter-based refund over a twelve-month period, except for customers in its Central Division where the over-collected balances would be netted against the existing CEBA balances.

13.10. Coastal Water Project Memorandum Account

Cal-Am's Coastal Water Project (CWP) memorandum account was authorized by the Commission in Ordering Paragraph 6 of D.03-09-022 to track costs associated with the development of a new water supply in the Monterey County District. According to Cal-Am, D.10-08-008 requires this account to remain open until all legal issues are resolved. Further, Cal-Am requested recover the current under-collected balance through June 6, 2019.³⁶⁰

Cal Advocates recommended closing the CWP account after transferring the remaining account balances for recovery.³⁶¹

Cal-Am acknowledged that no AFUDC will need to be addressed in the next GRC and agreed that Cal Advocates' deferred depreciation recommendation is appropriate, if May 31, 2019, is used, rather than its proposed date of June 6, 2019.³⁶²

Rather than litigating this issue, the Settlement sets forth an agreement for Cal-Am to:

- A. Recover \$492,509 of AFUDC and \$128,676 of deferred depreciation, from May 1, 2019, to June 6, 2019.
- B. Include interest through the transfer date for all transfers to the CEBA from the CWP;
- C. Close each component of the CWP account once the balance transfer plus interest has occurred; and

³⁶⁰ Exhibit CAW-4 at 11 and Attachment 1.

³⁶¹ Exhibit CalPA-6E (Public) at 54-59, 74-75, and Attachments 55, 56, and 69.

³⁶² Exhibit CAW-18 at 5 and 15-16.

D. Keep the CWP account open to track Regional Desalination Plant costs.³⁶³

13.11. Credit Card Memorandum Account

Cal-Am's Credit Card Memorandum Account, as established in D.18-12-021, tracks the credit card fees that have been waived for customers and any offsetting cost savings that may result with the use of a credit card. In this GRC, Cal-Am requested to keep this account open and transfer the current account balance of \$(22,390) to the CEBA for recovery.³⁶⁴

Cal Advocates recommended closing this account.³⁶⁵ Rather than litigating this issue, the Settlement adopts Cal-Am's proposal to keep the account open.³⁶⁶

13.12. Water Contamination Litigation Expense Memorandum Account

The Water Contamination Litigation Expense (WCLE) Memorandum Account, which was authorized in March 1998 by Resolution W-4084, tracks costs associated with litigating water contamination issues for all of Cal-Am's districts.³⁶⁷ Cal-Am requested to keep this account open.³⁶⁸ No party opposed this request.

³⁶³ Settlement at 92-93; Cal-Am-MPWMD Settlement at 17-18. MPWMD did not provide testimony on the CWP but agreed in a partial settlement that Cal-Am should be authorized to keep this account open.

³⁶⁴ Exhibit CAW-4 at 12 and Attachment 1; Exhibit CAW-18 at 6.

³⁶⁵ Exhibit CalPA-6E (Public) at 54-59, 75, and Attachments 55,56, and 69.

³⁶⁶ Settlement at 93.

³⁶⁷ Resolution W-4084 authorized all water utilities to establish a memo account to track water contamination litigation expenses and recover reasonable expenses in a subsequent GRC proceeding.

³⁶⁸ Exhibit CAW-4 at 12-13 and Attachment 1.

The Settlement adopts Cal-Am's request to keep the account open and shows that there is no current amount to recover in this GRC.³⁶⁹

13.13. Catastrophic Event Memorandum Account

Cal-Am uses its Catastrophic Event Memorandum Account (CEMA) to track costs associated with restoring service and reconstructing or replacing facilities that are affected by officially-declared national or state disasters or states of emergency. These catastrophic events can include drought related costs that are not otherwise covered by the drought Memorandum Account. Cal-Am's CEMA was authorized in 1991, and D.18-12-021 authorized its continuance. Cal-Am requested to transfer the full balance of the account to the CEBA for recovery and to keep this account open.³⁷⁰

Cal Advocates did not object to keeping this account open but recommended the current CEMA account balance should not be transferred for recovery until all pending insurance claims have been settled.³⁷¹

Cal-Am in its rebuttal testimony indicated the final insurance reimbursements have occurred and agreed to account for them prior to transferring the CEMA balance.³⁷²

The Settlement sets forth an agreement to keep the CEMA account open and transfer an under-collected balance of \$235,392 to the CEBA for recovery.

³⁶⁹ Settlement at 93-94.

³⁷⁰ Exhibit CAW-4 at 13-15 and Attachment 1.

³⁷¹ Exhibit CalPA-6E (Public) at 54-59, 76, and Attachments 55, 56, and 69.

³⁷² Exhibit CAW-18 at 6 and 22.

13.14. Seaside Basin Adjudication Balancing Account

Cal-Am's Seaside Basin Adjudication Balancing Account (SABA) tracks the amortization of costs and related interest on the unamortized balance of litigation costs incurred to secure Seaside Basin water rights in the Monterey County District. As authorized in Advice Letter W-778, effective July 19, 2009, a meter surcharge is assessed on all Cal-Am customers in the Monterey Main, Hidden Hills, Ryan Ranch, and Bishop areas to recover \$2,755,960 in costs over a 10-year period. Cal-Am initially requested to keep this account open to continue tracking the interest and surcharge collections.³⁷³

Cal Advocates recommended closing the SABA and transferring any remaining balance to the CEBA.

The Settlement sets forth an agreement to close Cal-Am's SABA because the balance has been fully recovered through a separate surcharge.

13.15. Seaside Groundwater Basin Memorandum Account

Cal-Am requested continued authorization to file a Tier 2 advice letter to reestablish the Seaside Groundwater Basin Memorandum Account (SGBMA), in which it historically tracked payments to the Seaside Basin Water Master for replenishment water. The SGBMA is currently closed, but Cal-Am stated it may need to reopen this account if it incurs future replenishment water costs.³⁷⁴

Cal Advocates recommended keeping the account closed and highlighted that D.18-12-021 denied Cal-Am's request to keep it open.³⁷⁵ While Cal-Am

³⁷³ Exhibit CAW-4 at 15 and Attachment 1. The SABA accrues interest at the 90-day commercial rate.

³⁷⁴ Exhibit CAW-4 at 15-16 and Attachment 1.

³⁷⁵ Exhibit CalPA-6E (Public) at 54-60 and Attachments 55 and 56; D.18-12-021 at 212-213.

acknowledged the account is currently closed, it reiterated its request for authorization to re-open the SGBMA by filing a Tier 2 Advice letter.³⁷⁶

Rather than litigating this issue, the Settlement adopts Cal-Am's request to file a Tier 2 Advice Letter to reestablish the account if it expects to incur costs from the Seaside Basin Water Master for replenishment water.³⁷⁷

13.16. Seaside Groundwater Basin Balancing Account

Cal-Am uses the Seaside Groundwater Basin Balancing Account (SGBBA) to track annual administrative and other payments made to the Seaside Basin Water Master, as authorized in D.09-07-021. Cal-Am requested to keep this account open and to transfer the account's outstanding balances to the CEBA for refund or recovery from customers in the Monterey County District.³⁷⁸

Cal Advocates recommended authorizing an over-collected balance be transferred to the CEBA to account for prior cost recovery allowed in Resolution W-5197.³⁷⁹

The Settlement adopts Cal Advocate's recommended over-collected balance transfer and keeps the SGBBA open for this GRC cycle.³⁸⁰

³⁷⁶ Exhibit CAW-18 at 6 and 17.

³⁷⁷ Settlement at 95-96; MPWMD-Cal-Am Settlement at 17-18.

³⁷⁸ Exhibit CAW-4 at 16 and Attachment 1.

³⁷⁹ Exhibit CalPA-6E (Public) at 54-59, 76, and Attachments 55, 56, and 69. Resolution W-5197 authorized Cal-Am to transfer the overcollection balance of \$878,665, or 1.5% of authorized revenues, from the SGBBA to the Monterey CEBA, and to amortize the remaining balance of \$4,162,023, or 7% of authorized revenues, using a 24-month \$0.0686 surcharge in the Monterey County – Main Service Area and through a 12-month \$0.0558 surcharge in the Central Division – Satellite Service Area.

³⁸⁰ Settlement at 96.

**13.17. Group Insurance
Balancing Account**

Cal-Am's Group Insurance Balancing Account was first authorized as a two-way balancing account in D.18-12-021 and captures the difference between authorized recovery of insurance costs and actual costs.³⁸¹ Cal-Am requested to keep the account open and transfer the current balance to the CEBA for recovery.³⁸² No party opposed this request. The Settlement sets forth an agreement to keep the account open and transfer the current balance of \$(962,078) to the CEBA for recovery.³⁸³

13.18. Pension Balancing Account

Cal-Am uses its Pension Balancing Account to track the difference between Commission-authorized pensions and actual pension payments. Cal-Am requested to continue the account and transfer the current over-collected balance of \$1,788,719 to the CEBA.³⁸⁴ No party opposed this request.

The Settlement adopts Cal-Am's request.³⁸⁵

13.19. OPEB Balancing Account

The Other Post-Employment Benefits (OPEB) Balancing Account tracks the difference between Commission-authorized OPEB costs and the actual payments made in all Cal-Am districts. Cal-Am requested to continue the account and transfer the over-collected balance of \$1,553,996 to the CEBA for refunding to ratepayers.³⁸⁶ No party opposed this request.

³⁸¹ D.18-12-021 at 228-231.

³⁸² Exhibit CAW-4 at 17 and Attachment 1; Exhibit CAW-18 at 6.

³⁸³ Settlement at 96-97.

³⁸⁴ Exhibit CAW-4 at 17 and Attachment 1.

³⁸⁵ Settlement at 97 and Section 11.1.

³⁸⁶ Exhibit CAW-4 at 17-18 and Attachment 1.

The Settlement adopts Cal-Am's request.³⁸⁷

**13.20. Old Monterey-Style
WRAM Balancing Account**

The Old Monterey-Style WRAM Balancing Account was authorized in D.96-12-005 and tracks the difference that would have been collected under the Commission-approved standard rate design and the tiered conservation rate design implemented in the Monterey District in 1996. Cal-Am requested to close this account and transfer the existing under-collected balance of \$33,835 to the CEBA for recovery.³⁸⁸

Cal Advocates agreed with Cal-Am's request to close the account but argued the balance to be transferred should be reduced because Cal-Am should not be allowed to recover interest charges tracked in this account following the adoption of D.18-12-021.³⁸⁹

Cal-Am disagreed with Cal Advocates and argued that D.18-12-021 only approved recovery of balances and interest through May 31, 2016, which left additional unrecovered interest in the account.³⁹⁰

Rather than litigating this issue, the Settlement sets forth an agreement to close this account and transfer the existing under-collected balance of \$33,835 to the CEBA for recovery consistent with Cal-Am's initial request.³⁹¹

³⁸⁷ Settlement at 97-98 and Section 11.1.

³⁸⁸ Exhibit CAW-4 at 18 and Attachment 1.

³⁸⁹ Exhibit CalPA-6E (Public) at 54-61 and Attachments 55, 56, and 69.

³⁹⁰ Exhibit CAW-18 at 6 and 17-18.

³⁹¹ Settlement at 98 and Section 11.1.

**13.21. Emergency Rationing
Costs Memorandum Account**

Cal-Am uses its Emergency Rationing Costs Memorandum Account to track potential expenses related to rationing requirements associated with local regulations in its Monterey County District. This account was initially established as Special Condition #9 in D.06-11-050 and continued in the partial settlements adopted in D.15-04-007 and D.18-12-021. Although no costs have been incurred as of the filing of A.19-07-004, Cal-Am requested to continue it in this GRC.³⁹² No party opposed this request.

The Settlement adopts Cal-Am's initial request to continue its Emergency Rationing Costs Memorandum Account.³⁹³

**13.22. Purchased Water, Purchased
Power and Pump Tax
Balancing Accounts**

Cal-Am tracks certain production-based expense related items that could prevent utilities from achieving their authorized earnings in its Purchased Water, Purchased Power and Pump Tax Balancing Accounts. Cal-Am requested to continue these accounts, and no party opposed this request.³⁹⁴

The Settlement adopts Cal-Am's request to keep this account open for this GRC cycle.³⁹⁵

³⁹² Exhibit CAW-4 at 18-19 and Attachment 1.

³⁹³ Settlement at 99; MPWMD did not address this account in testimony but agreed in its partial settlement with Cal-Am that the utility should be authorized to maintain the Emergency Rationing Costs Memorandum Account (Cal-Am-MPWMD Settlement at 17-18).

³⁹⁴ Exhibit CAW-4 at 19-20 and Attachment 1; Exhibit CalPA-6E at 54-59, 80, and Attachments 55 and 56.

³⁹⁵ Settlement at 99.

13.23. Monterey Wastewater Purchased Power Expense Balancing Account

Cal-Am uses this Purchased Power Expense Balancing Account to track unavoidable changes in power costs in the Monterey Wastewater District. Cal-Am requested to continue this account and transfer the current under-collected balance to the CEBA for recovery.³⁹⁶ No parties opposed this request.

The Settlement sets forth an agreement to continue this account and transfer the current under-collected balance of \$172,642 to the CEBA for recovery, consistent with Cal-Am's initial request.³⁹⁷

13.24. Monterey Cease and Desist Order Memorandum Account

Pursuant to Resolution W-4824, Cal-Am established the Monterey Cease and Desist Order (CDO) Memorandum Account to track costs associated with the SWRCB cease and desist order. Cal-Am requested to continue the CDO account and transfer the existing under-collected account balance of \$6,084,320 to the CEBA for recovery.³⁹⁸

Cal Advocates argued \$613,507 of Cal-Am's requested recovery amount was previously authorized for recovery in D.18-12-021. Cal Advocates further recommended closing this account because there is deadline of December 31, 2021, for addressing these costs established in the revised SWRCB cease and desist order.³⁹⁹

³⁹⁶ Exhibit CAW-4 at 20 and Attachment 1; Exhibit CalPA-6E at 54-59, 78, and Attachments 55, 56, and 69; Exhibit CAW-18 at 6.

³⁹⁷ Settlement at 99-100 and Section 11.1.

³⁹⁸ Exhibit CAW-4 at 20-21 and Attachment 1.

³⁹⁹ Exhibit CalPA-6E at 54-59, 61-62, and Attachments 55, 56, and 69.

Cal-Am argued that the requested cost recovery amounts reflect the amounts previously authorized by D.18-12-021 and that it is likely to continue incurring costs related to the SWRCB cease and desist order beyond December 31, 2021.⁴⁰⁰

The Settlement sets forth an agreement that Cal-Am's requested under-collected balance be transferred to the CEBA and that the CDO account should remain open.⁴⁰¹

13.25. Affiliate Transaction Memorandum Account

Cal-Am's Affiliate Transaction Memorandum Account was established in D.10-10-019 to track fees paid to Cal-Am for the transfer, assignment, or employment of an employee by an affiliate. Cal-Am requested to keep the account open and transfer the over-collected balance of \$91,413 to the CEBA to be refunded to ratepayers.⁴⁰²

Cal Advocates argued the correct over-collected amount to transfer is \$739,037.⁴⁰³

Cal-Am in rebuttal argued it seeks recovery entries tracked in this account that tie directly to the requested \$91,413 over-collected balance representing the 15% fee for five employees that transferred from Cal-Am to an affiliate.⁴⁰⁴

⁴⁰⁰ Exhibit CAW-18 at 5, 7-8, and Attachment 1.

⁴⁰¹ Settlement at 100 and Section 11.1; In the Cal-Am-MPWMD Settlement a similar agreement was reached: both parties agreed the CDO account should remain open for this GRC cycle (at 17-18).

⁴⁰² Exhibit CAW-4 at 21-22 and Attachment 1.

⁴⁰³ Exhibit CalPA-6E at 54-59, 81-82, and Attachments 55, 56, and 69.

⁴⁰⁴ Exhibit CAW-18 at 22. D.10-10-019, Appendix A Section IV.D.2 states "When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 15% of the employee's base

Footnote continued on next page.

The Settlement sets forth an agreement to keep the account open and transfer the over-collected balance of \$91,413 to the CEBA to be refunded to ratepayers, consistent with Cal-Am's initial request.⁴⁰⁵

13.26. GRC Interim Rate True-Up Memorandum Account

The GRC Interim Rate True-Up account was created to track the difference between what was billed by Cal-Am in 2018 and 2019 and what should have been billed based on D.18-12-021 and the authorized step-up for 2019 rates. Cal-Am will file an Advice Letter to refund or bill customers for the amount outstanding in this account, once the final calculation is complete. Cal-Am also requested to continue this account to allow time for the final calculation associated with the difference described above, as well as any true-ups necessary for future GRCs.⁴⁰⁶

Cal Advocates did not object to this request, but in rebuttal testimony Cal-Am identified this account as one that should be closed.⁴⁰⁷

The Settlement provides that this account be closed.⁴⁰⁸

Cal-Am was authorized to establish a separate memorandum account to track interim rates for this GRC and any associated balance(s) with the approval of its Advice Letter 1318, effective January 1, 2021.

annual compensation. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees."

⁴⁰⁵ Settlement at 101 and Section 11.1.

⁴⁰⁶ Exhibit CAW-4 at 22 and Attachment 1.

⁴⁰⁷ Exhibit CalPA-6E at 69-70 and Attachments 55 and 56; Exhibit CAW-18 at 24.

⁴⁰⁸ Settlement at 102.

**13.27. Cost of Capital Interim
Rate Memorandum Account**

D.18-12-021 adopted a lower cost of capital and the Cost of Capital Interim Rate Memorandum Account tracked the over-collection associated with bills in 2018 related to the authorized rates adopted in the last GRC. Cal-Am requested to continue this account but stated that the amounts tracked in this account have been already transferred to the GRC Interim Rate True-Up Memorandum Account, so no balance transfer is necessary.⁴⁰⁹

Cal Advocates recommended closing this account because the balance has already been transferred.⁴¹⁰

The Settlement sets forth an agreement to close this account.

**13.28. Statewide Non-Revenue Water
Action Plan Memorandum Account**

Cal-Am requested to close its Statewide Non-Revenue Water Action Plan Memorandum Account and transfer the under-collected balance of \$2,718 for recovery.⁴¹¹ This account has been used to track costs associated with engineering, final evaluation, and studies of measures that would reduce non-revenue water in each district, as approved in Cal-Am's Advice Letter 969. No party opposed this request.

The Settlement sets forth an agreement that this account be closed, as requested by Cal-Am.⁴¹²

⁴⁰⁹ Exhibit CAW-4 at 22-23 and Attachment 1.

⁴¹⁰ Exhibit CalPA-6E at 54-59, 69-70, and Attachments 55-56.

⁴¹¹ Exhibit CAW-4 at 23 and Attachment 1; Exhibit CAW-18 at 6 and 23.

⁴¹² Settlement at 102-103 and Section 11.1.

13.29. Monterey Leak Adjustments Memorandum Account

Cal-Am requested to close its Leak Adjustment Memorandum Account (LAMA) in this GRC after transferring the under-collected balance of \$3,412,468 to the CEBA for recovery. The LAMA, as approved in Resolution W-4951, was used to track leak adjustments in the Monterey District from February 26, 2013, through December 31, 2014, when leak adjustments started being included in base rates.⁴¹³

Cal Advocates recommended we should account for an error rate of 5.24% and deny recovery of any interest tracked in the LAMA after December 31, 2014.⁴¹⁴ Cal Advocates also argued the appropriate balance to transfer is \$(3,165,698).⁴¹⁵

Cal-Am disagreed with Cal Advocates' recommended error rate calculation but identified a cumulative miscalculation in the LAMA of \$3,758. Cal-Am further stated that its requested LAMA balance does not include interest accrued after December 31, 2014.⁴¹⁶

The Settlement sets forth an agreement adopting Cal-Am's adjusted request to transfer an under-collected balance of \$3,408,710 to the CEBA for recovery.⁴¹⁷

⁴¹³ Exhibit CAW-4 at 23-24 and Attachment 1.

⁴¹⁴ The proposed error rate was calculated based on a data request response and is described in Exhibit CalPA-6EC at 62-63. In essence, Cal Advocates sought specific leak adjustment transactions and audited them to identify calculation errors and suggested that 5.24% of the balance of the selected transactions was an overcalculation.

⁴¹⁵ Exhibit CalPA-6E at 54-59, 62-63, and Attachments 55, 56, and 69.

⁴¹⁶ Exhibit CAW-18 at 6 and 18; Exhibit CAW-22 at 67-68.

⁴¹⁷ Exhibit CAW-22 at 68, Settlement at 103.

**13.30. Conservation / Rationing
Memorandum Account**

Cal-Am was authorized to establish its Conservation/Rationing Memorandum Account in Resolution W-4976 to track expenses associated with implementing Rule 14.1 and/or Schedule 14.1 that have not been considered in a GRC or other proceeding.⁴¹⁸ Cal-Am requested to close this account and transfer the under-collected balance of \$48,252 for recovery.⁴¹⁹

Cal Advocates did not oppose this request but recommended denying recovery of all costs because the Governor lifted the emergency drought declaration on April 7, 2017.⁴²⁰ Cal-Am rebutted that denying all cost recovery would prevent Cal-Am's recovery of interest accrued from March through December 2018.

The Settlement proposes to adopt Cal-Am's initial request.⁴²¹

**13.31. Sand City Desalination Plant
Purchased Water Balancing Account**

Cal-Am requested to close its Sand City Desalination Plant Purchased Water Balancing Account, which was established by D.13-04-015. D.18-12-021 added Sand City costs to Monterey District purchased water costs, effective January 1, 2018.⁴²² However, Cal-Am stated that the last GRC did not cover the activity or interest in the account after May 31, 2016, and requested to transfer the under-collected balance of \$441,128 accrued from May 31, 2016, through

⁴¹⁸ Rule and Schedule 14.1 include mandatory water rationing requirements and associated enforcement provisions.

⁴¹⁹ Exhibit CAW-4 at 24-25 and Attachment 1.

⁴²⁰ Exhibit CalPA-6E at 54-59, 64-65, and Attachments 55, 56, and 69.

⁴²¹ Settlement at 104-105.

⁴²² D.18-12-021 at 232-234.

December 31, 2017, and any accrued interest through the date the balance is transferred to the CEBA.⁴²³

Cal Advocates agreed with Cal-Am's request to close the account but recommended transferring an over-collected balance of \$238,929, which it calculated based on Attachment 1 of Exhibit CAW-4.⁴²⁴ Cal-Am argued Cal Advocates' calculation did not account for activity that occurred after May 31, 2019.⁴²⁵

The Settlement adopts Cal-Am's request to transfer an under-collected balance of \$441,128 to the CEBA for recovery, and to close the account after the balance, including any accrued interest through the date the balance is transferred to the CEBA.⁴²⁶ The Settlement reflects the provisions adopted in D.18-12-012 but allows Cal-Am to fully recover the outstanding under-collected balance before closing this account.

13.32. Chromium 6 Memorandum Account

Cal-Am requested to continue its Los Angeles and Sacramento District Chromium 6 Memorandum Account and to transfer the current account balance to the CEBA for recovery.⁴²⁷ According to Cal-Am, the current balance in this account relates to depreciation, ad valorem taxes and Allowance for Funds Used During Construction (AFUDC) from the January 1, 2018 (date of the project completion) to May 31, 2019, for Sacramento and Dunnigan Districts.⁴²⁸

⁴²³ Application 100-Day Update at 5; Exhibit CAW-4 at 24 and Attachment 1.

⁴²⁴ Exhibit CalPA-6E at 54-59 and Attachments 55, 56, and 69.

⁴²⁵ Exhibit CAW-18 at 5, 16, and Attachment 6.

⁴²⁶ Settlement at 104; this amount reflects that \$680,057 was credited back to customers through the 2019 interim rate process.

⁴²⁷ Exhibit CAW-4 at 25 and Attachment 1.

⁴²⁸ Exhibit CAW-18 at 13.

Cal Advocates recommended adjusting the requested account balance to account for costs Cal-Am was authorized to recover in Resolution W-5212. Cal Advocates argued that any AFUDC included in the forecasted plant costs for the Dunnigan and Sacramento Districts should be removed for TY 2021 and that the depreciation amounts recovered through surcharges should be deducted from rate base. Cal Advocates also suggested the account should be closed as the related projects have all been completed or will be completed in this GRC cycle.⁴²⁹

Cal-Am agreed that the account balance should be adjusted to account for Resolution W-5212 but argued that AFUDC should not be removed from the Dunnigan District and that depreciation amounts should only be deducted in certain circumstances. Cal-Am also reasserted that the account should remain open for this GRC.⁴³⁰

Rather than litigating these issues, the Settlement adopts Cal-Am's initial request to keep the account open and transfer the under-collected account balance to the CEBA. The Settlement recognizes that:

- A. Incremental costs beyond trailing interest have not been added to the account since the Sacramento/Dunnigan Chromium 6 projects have been included in rate base since January 1, 2020;
- B. The AFUDC should not be reduced from the Dunnigan District's forecasted plant; and
- C. Depreciation expenses from the period January 1 and May 31, 2019, could be added to the depreciation reserve

⁴²⁹ Exhibit CalPA-6E at 54-59, 66, and Attachments 55, 56, and 69. Cal Advocates identified the related projects that have already or will be complete by 2023 as I15-500054 in the Los Angeles District and I15-600081 and I15-630001, both in the Sacramento District.

⁴³⁰ Exhibit CAW-18 at 5, 13-15, and Attachment 5; Exhibit CAW-22 at 59.

once they are collected, if the reserve has not already forecasted it in.⁴³¹

13.33. Garrapata Service Area Memorandum and Balancing Accounts

Cal-Am requested to maintain three memorandum accounts and eight balancing accounts designed to recover costs in the Garrapata Service Area that are used to track and recover costs not anticipated in rates.⁴³² No party objected to this request. In its rebuttal testimony, Cal-Am stated that the 11 Garrapata Service Area accounts could be closed.⁴³³

The Settlement adopts Cal-Am's adjusted request to close the 11 Garrapata Service Area accounts.⁴³⁴

13.34. Garrapata SDWSRF Loan Repayment Balancing Account

The Garrapata Safe Drinking Water State Revolving Fund (SDWSRF) account tracks recovery of the balance provided to Cal-Am under the American Recovery and Reinvestment Act for projects authorized by Resolution W-4788.⁴³⁵ No party objected to this request.

⁴³¹ Settlement at 105-106.

⁴³² Exhibit CAW-4 at 26-27 and Attachment 1.

⁴³³ Exhibit CalPA-6E at 54-59, 79, and Attachments 55 and 56; Exhibit CAW-18 at 24.

⁴³⁴ Settlement at 106-107. The 11 accounts are Cal-Am's (1) Unanticipated Repair Cost Memorandum Account, (2) Infrastructure Act Memorandum Account, (3) Water Contamination Litigation Expense Memorandum Account, (4) Purchase Power Balancing Account, (5) Purchase Water Balancing Account, (6) Pump Tax Balancing Account, (7) Payroll Balancing Account, (8) Payroll Taxes Balancing Account, (9) Contract Labor Balancing Account, (10) Water Quality Balancing Account, and (11) California Department of Public Health User Fees Balancing Account.

⁴³⁵ Resolution W-4788 authorized then-Garrapata Water Company to borrow \$114,813 under the American Recovery and Reinvestment Act and enter into a secured loan contract with the California Department of Public Health.

The Settlement adopts Cal-Am's request to keep this account open.⁴³⁶

**13.35. Monterey One-Way Leak
Adjustment Balancing Account**

Cal-Am stated that its Monterey One-Way Leak Adjustment Balancing Account, which tracks balances related to Monterey District leak adjustments, has no outstanding balance and requested to close this account.⁴³⁷

Cal Advocates recommended that leak adjustments be recovered through base rates which would eliminate the need for this balancing account.⁴³⁸

The Settlement adopts Cal-Am's initial request to close this account, starting January 1, 2021.⁴³⁹

13.36. West Placer Memorandum Account

Cal-Am requested to keep its West Placer Memorandum Account open to continue tracking the construction costs, including post-construction carrying costs, and the special facilities fee collected from developers in the West Placer County service area of the Sacramento District.⁴⁴⁰ No party objected to this request.

The Settlement adopts Cal-Am's request to maintain this account in this GRC cycle.⁴⁴¹

⁴³⁶ Exhibit CAW-4 at 27 and Attachment 1; Exhibit CalPA-6E at 54-59, 79-80, and Attachments 55 and 56.

⁴³⁷ Exhibit CAW-4 at 27-28 and Attachment 1; Exhibit CAW-18 at 24.

⁴³⁸ Exhibit CalPA-6E Attachments 55 and 56.

⁴³⁹ Settlement at 107.

⁴⁴⁰ Exhibit CAW-4 at 28 and Attachment 1; Cal-Am was authorized to maintain this memorandum account in D.13-10-003.

⁴⁴¹ Exhibit CalPA-6E at 54-59, 80, and Attachments 55 and 56; Settlement at 108.

13.37. SGMA Memorandum Account

Cal-Am requested to keep its Sustainable Groundwater Management Act (SGMA) memorandum account open to continue recording costs of complying with new regulations that were not able to be forecasted in its last GRC and to transfer the current under-collected balance to the CEBA for recovery.⁴⁴²

Cal Advocates did not object to continuing this account but argued the account balance to be transferred is \$(316,456).⁴⁴³ Cal-Am argued Cal Advocates' proposed balance was higher than the under-collected balance in the account as of May 31, 2019, likely due to a difference in interest calculations.⁴⁴⁴

The Settlement adopts Cal-Am's initial request to recover the outstanding under-collected balance in this account and keep the SGMA account open for this GRC.⁴⁴⁵

13.38. The Memorandum Account for Environmental Improvement and Compliance Issues for Acquisitions

This account was originally opened to track costs associated with system improvements required to comply with environmental and other regulations in the Dunnigan service territory. Cal-Am requested to keep this account open in this GRC cycle.⁴⁴⁶

⁴⁴² Exhibit CAW-4 at 28-29 and Attachment 1. The SGMA sets a comprehensive framework to regulate groundwater and requires the designation of groundwater sustainability agencies and the adoption of groundwater sustainability plans for basins that the Department of Water Resources designates as medium- or high- priority.

⁴⁴³ Exhibit CalPA-6E at 54-59, 81, and Attachments 55, 56, and 69.

⁴⁴⁴ Exhibit CAW-18 at 6 and 23-24.

⁴⁴⁵ Settlement at 108-109.

⁴⁴⁶ Exhibit CAW-4 at 29 and Attachment 1.

Cal Advocates argued that, because Cal-Am has operated the Dunnigan system for several years and should understand the system requirements, this account should be closed.⁴⁴⁷ Cal-Am explained the account is no longer specific to costs associated with the Dunnigan acquisition.⁴⁴⁸

The Settlement provides an agreement to adopt Cal-Am's initial request to keep the account open.⁴⁴⁹

13.39. Dunnigan Consulting Memorandum Account

The Dunnigan Consulting memo account tracks Cal-Am's consulting costs associated with a settlement authorized in D.15-11-012, which included a six-year, monthly compensation amount of \$12,500. Cal-Am requested to keep this account open and to transfer the current under-collected balance of \$465,336 to the CEBA for recovery.⁴⁵⁰

Cal Advocates argued that the requested balance does not account for the balance that was authorized for recovery in D.18-12-021 and should be reduced further because the consultant costs exceeded what was authorized in the 2015 Decision. Cal Advocates also recommended that this account should be closed effective November 5, 2021, which would represent six years after the close of Cal-Am's transaction to acquire the Dunnigan system.⁴⁵¹

Cal-Am argued its proposed closure date aligns with the decision that authorized the acquisition, rather than the actual close of the acquisition.⁴⁵²

⁴⁴⁷ Exhibit CalPA-6E at 54-59, 67, and Attachments 55 and 56.

⁴⁴⁸ Exhibit CAW-18 at 19.

⁴⁴⁹ Settlement at 109.

⁴⁵⁰ Exhibit CAW-4 at 30 and Attachment 1.

⁴⁵¹ Exhibit CalPA-6E at 54-59, 67-68, and Attachments 55, 56, and 69.

⁴⁵² Exhibit CAW-18 at 5, 11-12 and Attachment 3.

Rather than litigating this issue, the Settlement provides an agreement to adopt Cal-Am's initial request.⁴⁵³

13.40. Water-Energy Nexus Program Memorandum Account

Cal-Am uses the Water-Energy Nexus Program memorandum account to track expenses related to water-energy nexus projects and requested to keep this account open and to transfer an under-collected balance of \$286,962 to the CEBA for recovery.⁴⁵⁴ Cal Advocates recommended this account be closed and that the appropriate balance to be transferred is \$(277,633).⁴⁵⁵

The Settlement adopts Cal-Am's initial request.⁴⁵⁶

13.41. Discussion on Memo and Balancing Accounts and CEBA Transfers

We find the Settlement reached compromises on the memorandum and balancing accounts described and discussed above, including the associated balance transfers to Cal-Am's CEBA account, to be reasonable in light of the whole record, consistent with the law, and in the public interest.

Cal-Am shall transfer \$12,639,314 to the CEBA for recovery, based on the details discussed related to specific accounts in Sections 13.2 through 13.40 above, and keep its CEBA account open for this GRC cycle. We note that D.19-07-015, found, in part, that "[c]osts for emergency customer protection activities should be recovered across each utility's entire customer base."⁴⁵⁷

⁴⁵³ Settlement at 109-110.

⁴⁵⁴ Exhibit CAW-4 at 30 and Attachment 1.

⁴⁵⁵ Exhibit CalPA-6E at 54-59, 68-69, and Attachments 55, 56, and 69.

⁴⁵⁶ Exhibit CAW-18 at 6, 19-20, and Attachment 7; Settlement at 110 and Section 11.1.

⁴⁵⁷ D.19-07-015 at 67 and Ordering Paragraph 10.

Additional issues related to Cal-Am's Special Requests #2, # 4, and #7 described above related to the WRAM/MCBA are addressed in Section 12 of the Settlement and Section 14 of this Decision.

We also note that D.18-12-021 established specific cost accounting procedures for the SGMA Memorandum Account.⁴⁵⁸ Therefore, Cal-Am shall continue its SGMA memorandum account for this GRC cycle, including the cost accounting procedures established in D.18-12-021.

Further, the CEMA amount agreed upon in the Settlement and authorized in this decision to be transferred to the CEBA for recovery does not account for customer arrearages associated with loss of income or other economic distress caused by the COVID-19 pandemic. The costs associated with those customer arrearages are still under consideration in Phase 2 of R.17-06-024.

13.42. Request to Close Memo and Balancing Accounts Before Next GRC

Cal Advocates argued that Cal-Am has too many regulatory accounts open.⁴⁵⁹ Cal-Am stated that it has requested to close a number of these regulatory accounts in this GRC and requested to be allowed to file a Tier 2 Advice Letter to request account closure after transferring the balance(s) to the CEBA for recovery.⁴⁶⁰

⁴⁵⁸ D.18-12-021 requires Cal-Am to document and identify each cost incurred, the purpose of each cost, and provide an explanation why the costs are necessary to comply with SGMA. The Decision at 252-253 also established requirements for tracking and recording employees' time associated with SGMA compliance.

⁴⁵⁹ Exhibit CAW-6EC at 58-75 and Attachments 55, 57, 60, and 61-65.

⁴⁶⁰ Exhibit CAW-18 at 7-21 and Attachments 2, 6, and 7; Exhibit CAW-20 at 30-32.

The Settlement identifies twelve surcharge accounts that should be closed after any trailing interest charges are transferred to the CEBA for recovery.⁴⁶¹

The Settlement also includes terms authorizing Cal-Am to file a Tier 2 Advice Letter, if necessary, prior to the filing of its next GRC, to close regulatory accounts that are no longer necessary.⁴⁶²

We find the Settlement, as it relates to the closure of these 12 accounts, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest because it ensures Cal-Am to continue to evaluate and fully close regulatory accounts when the balance has been fully recovered from ratepayers. Cal-Am shall close the 12 accounts identified in the Settlement and may file a Tier 2 Advice Letter seeking to close additional accounts, if necessary, ahead of the filing of its next GRC.

We separately note that the terms set forth in Section 11.9 of the Settlement requires closure of the Conservation Surcharge Balancing Account as of December 31, 2020, and that conservation expenses should be recovered through base rates for this GRC cycle. The Settlement provides that any trailing interest charges associated with the Conservation Surcharge Balancing Account up to the

⁴⁶¹ Settlement at 85 identifies the following accounts to be closed: Two-Way Tax Memo Account – Bonus Depreciation and Tax Change Components; Seaside Basin Adjudication Balancing Account; Seaside Groundwater Basin Memorandum Account; Old Monterey Style WRAM Balancing Account; GRC Interim Rate True Up Memorandum Account; Cost of Capital Interim Rate Memorandum Account; Statewide Non-Revenue Water Action Plan Memorandum Account; Monterey Leak Adjustments Memorandum Account; Sand City Desalination Plant Purchased Water Balancing Account; Conservation/Rationing Memorandum Account; Garrapata Service Area Memorandum and Balancing Accounts; and Monterey One-Way Leak Adjustment Balancing Account.

⁴⁶² Settlement at 110-112.

December 29, 2020, approval of the Tier 2 Advice Letter shall be transferred to the CEBA for recovery.⁴⁶³

We find the Settlement, as it relates to the Conservation Surcharge Balancing Account, is reasonable in light of the whole record, consistent with the law, and in the public interest because it aligns with Commission precedence on this issue. Pursuant to Ordering Paragraph 41 of D.18-12-021, Cal-Am filed a Tier 2 Advice Letter on November 23, 2020, providing an accounting of conservation funds spent with supporting documentation.⁴⁶⁴ Advice Letter (AL) 1316 included a proposal to refund customers for any unspent funds or to collect any authorized revenues that are not yet billed through the CEBA. The Commission's Water Division approved AL 1316 on December 29, 2020. Therefore, Cal-Am is directed to close its Conservation Surcharge Balancing Account after any trailing interest charges are transferred to the CEBA for recovery. For this GRC, Cal-Am shall recover costs associated with its conservation expenses through base rates.

⁴⁶³ Settlement at 86.

⁴⁶⁴ Ordering Paragraph 41 of D.18-12-021 provided "California-American Water Company (Cal-Am) is authorized to shift authorized conservation budget amounts between best management practice rate categories within a service area. Cal-Am shall continue to track conservation expenses in the one-way California American Water Conservation Surcharge Balancing Accounts with any unspent funds refunded to ratepayers on an annual basis after the end of each year of the General Rate Case cycle. Cal-Am shall file a Tier 2 advice letter no later than 45 days after the end of each year providing an accounting of conservation funds spent with supporting documentation, as well as a proposal to refund to customers any unspent budgeted funds."

14. Special Requests

14.1. Southern Division Tariff Area Consolidation

As Special Request #1, Cal-Am sought to consolidate its Los Angeles County, Ventura County, and San Diego County Districts to create one Southern California Division tariff area.⁴⁶⁵ Cal Advocates argued:

- A. The Commission should only authorize consolidation of the proposed revenue requirements and tariff pricing;
- B. The tier breakpoints should be based on specific consumption data from the current five, separate districts;⁴⁶⁶
- C. The Commission should ensure the proposed rate design does not significantly increase bills for median water use in any of the five districts; and
- D. Any new rate should maintain a strong conservation signal in each district.

Duarte suggested Cal-Am's requested consolidation would reduce average residential water rates.⁴⁶⁷ However, San Marino argued its customers would see a 16.64% increase in rates in 2021 if Cal-Am's proposal were approved.⁴⁶⁸

Cal-Am stated Cal Advocates' suggestion to impute savings of at least 0.761% on the proposed consolidated Southern District revenue requirement would be retroactive ratemaking and conflict with the Water Action Plan.⁴⁶⁹

Rather than litigating this Special Request, the Settlement provides an agreement that adopts Cal-Am's request to consolidate its Southern District but

⁴⁶⁵ A.19-07-004 at 10; Exhibit CAW-6 at 13-38 and Attachment 4.

⁴⁶⁶ Exhibit CalPA-10 at 5-1 to 5-20 and Attachments 2 and 6.

⁴⁶⁷ Exhibit Duarte-1 at 7 and Attachment 7.

⁴⁶⁸ Exhibit San Marino-1 at 2-3.

⁴⁶⁹ Exhibit CAW-20 at 41-56

makes significant adjustments to ensure median usage customers (and below) will see no more than the average system-wide rate increase.⁴⁷⁰

We find the Settlement, as it relates to Cal-Am's request to consolidate its Los Angeles County, Ventura County, and San Diego County Districts to create one Southern California Division tariff area, is reasonable in light of the whole record, consistent with the law, and in the public interest. As provided in the Settlement, Cal-Am shall ensure its Southern District consolidation does not cause any customers with median to below-median usage to face a rate increase above the system-wide average. Details on the authorized Southern Division purchased water cost consolidation design are discussed in Section 4.4 above.

14.2. Catastrophic Event Cost Impact Normalization

In Special Request #2, Cal-Am sought to normalize all cost recovery associated with recent and future catastrophic event costs on a statewide basis, including specific costs associated with the October 2017 wildfires in the Larkfield District.⁴⁷¹

Cal Advocates argued that the Commission should not pre-determine recovery of unknown future costs and that Cal-Am's recovery of any 2017 Larkfield wildfire-related costs should be postponed until the insurance claims are fully settled.⁴⁷²

Cal-Am argued that D.19-07-015 approved recovery of costs recorded to the CEMA "across each utility's entire customer base,"⁴⁷³ and that the costs it

⁴⁷⁰ Settlement at 112-113.

⁴⁷¹ A.19-07-004 at 10; Exhibit CAW-6 at 38-46 and Attachment 3.

⁴⁷² Exhibit CalPA-6E Chapter 4 at 83-91 and Attachments 70-72.

⁴⁷³ D.19-07-015 at 44-45.

requested associated with the 2017 Larkfield wildfire events are appropriate because no further insurance reimbursement for that event should be expected.⁴⁷⁴

Rather than litigating Special Request #2, the Settlement provides an agreement that Cal-Am's request related to the 2017 Larkfield Wildfires, as described in Exhibit CAW-20, should be authorized, and that wildfire-related costs recorded in Cal-Am's CEMA after May 31, 2019, should be reviewed in the next GRC for recovery on a statewide basis, pursuant to D.19-07-015.⁴⁷⁵ The Settlement also provides that any 2018-2020 lost-quantity revenues should be reviewed in Cal-Am's next GRC.

MPWMD's opening brief requested relief from any recovery related to catastrophic wildfire related events that are not directly connected to Cal-Am's Monterey District. It argued there are no distribution or transmission systems that link the areas impacted by the Larkfield Fires, for example, to the rest of Cal-Am's service districts, and that cost recovery should be limited to those areas impacted by the catastrophic event.⁴⁷⁶

We find the Settlement, as it relates to Cal-Am's request to normalize its catastrophic event cost recovery, is reasonable in light of the whole record on this on this issue, consistent with the law, and in the public interest. Although MPWMD continues to oppose the statewide recovery of CEMA costs, we find that the agreements reached in the Settlement related to the "normalization" of

⁴⁷⁴ Exhibit CAW-20 at 56-61.

⁴⁷⁵ Settlement at 113; CAW-20 at 31 "Approval of [Special Request] #2 will allow the catastrophic event costs related to the Sonoma County wildfires that impacted our Larkfield district to be recovered properly. These are the costs incurred to bring our customers back on-line."

⁴⁷⁶ MPWMD opening brief at 9.

CEMA costs align with the provisions adopted in D.19-07-015.⁴⁷⁷ Cal-Am shall recover the 2017 Larkfield Wildfire related costs, net of received insurance claims, as identified in Exhibit CAW-20, and shall seek recovery of any wildfire-related costs after May 31, 2019, through its next GRC on a statewide basis.

14.3. Acquisition Contingency Memorandum Account

According to Cal-Am, SWRCB and Commission policy directives encourage the acquisition of small and/or troubled water systems; and it is therefore reasonable to create a mechanism to track the potentially lost revenues associated with the incremental customer base between each three-year GRC cycle.⁴⁷⁸ In this GRC, Cal-Am included Special Request #3, to establish a new Acquisition Contingency Memorandum Account (ACMA) to record the difference between rates established based on pre-acquisition rate base for customers of water systems acquired by Cal-Am and the revenues Cal-Am would recover if customers in acquired water systems were billed on post-acquisition rates, based on the post-acquisition revenue requirement. This memo account would be used for any acquisition after a decision is adopted in this GRC, and Cal-Am requested authorization to file a Tier 2 Advice Letter to recover any annual balance in the ACMA.

Cal Advocates argued that acquisitions and their timing are typically fully within Cal-Am's control, and that the Commission should not continue its proliferation of surcharge accounts for Cal-Am.⁴⁷⁹

⁴⁷⁷ Ordering Paragraph 10 of D.19-07-015 states that all Class A water utilities shall recover costs for emergency customer protection activities done in response to any federal- or state-declared state of emergency, across their entire customer base.

⁴⁷⁸ A.19-07-004 at 10; Exhibit CAW-6 at 46-51.

⁴⁷⁹ Exhibit CalPA-6E Chapter 5 at 87-89.

Cal-Am stated that although it can manage some timing related to acquisitions, the negotiations and costs cannot be as detailed as necessary to include forecasted costs in GRC filings, particularly because the utility must await Commission approval for the acquisition(s). Therefore, Cal-Am argued (1) it is not possible to time its acquisitions to correspond to rate case cycles and (2) delaying acquisitions to align with GRC cycles could potentially cause harm to ratepayers.⁴⁸⁰

The Settlement provides an agreement that withdraws Cal-Am's request to establish an ACMA but affirms Cal-Am the ability to revisit the issue to request a similar account within specific acquisition-related proceedings.⁴⁸¹

We find the Settlement, as it relates to the withdrawal of Cal-Am's request to establish a new ACMA, is reasonable in light of the whole record of this proceeding because it aligns with Cal Advocates' testimony encouraging a reduced number of surcharge accounts for Cal-Am's customers. Further, it is consistent with the law and in the public interest because it provides Cal-Am the opportunity to request a similar account when filing applications for specific acquisitions. Cal-Am provided no persuasive rationale to establish any form of ACMA prior to Cal-Am needing it in conjunction with a new proposed acquisition. Cal-Am shall not establish an ACMA for this GRC cycle but may request a similar account within specific acquisition-related proceedings, if appropriate.

⁴⁸⁰ Exhibit CAW-20 at 61-70 and Attachment 4.

⁴⁸¹ Settlement at 113-114.

14.4. Leak Adjustment Policy and Recovery

As Special Request #4, Cal-Am sought to continue implementing its authorized leak adjustment policy but to move recovery of leak adjustments from base rates, as adjusted by the one-way Leak Adjustment Balancing Account (LABA), into the WRAM and to close the existing LABA.⁴⁸²

Cal Advocates recommended this request be denied and suggested the Commission should maintain oversight of the LABA through the GRC process.⁴⁸³ Cal-Am stated that if the Commission prefers to continue evaluation of leak adjustments through the GRC process, the costs should be evaluated and forecasted as part of Cal-Am's revenue requirement.⁴⁸⁴

The Settlement provides an agreement to (1) include leak adjustments as an operating expense in base rates and (2) close Cal-Am's LABA.⁴⁸⁵ We find the Settlement, as it relates to Cal-Am's LABA and leak adjustment policy, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. As noted by MPWMD, "even small leaks can result in extraordinary bills. This policy affords some relief to customers."⁴⁸⁶ Cal-Am shall close its LABA and recover leak adjustments going forward as an operating expense in its base rates, returning any overcollection to its customers if necessary. No later than 60 days following the issuance of this Decision, Cal-Am shall file a Tier 1 Advice Letter detailing its proposed mechanism for

⁴⁸² A.19-07-004 at 10-11; Exhibit CAW-6 at 51-59.

⁴⁸³ Exhibit CalPA-10 Rose testimony at 5-2 and 5-20.

⁴⁸⁴ Exhibit CAW-20 at 70-72.

⁴⁸⁵ Settlement at 115 and Section 11.1.

⁴⁸⁶ MPWMD opening brief at 5.

refunding customers any overcollection related to its LABA and its new leak adjustment policy.

14.5. WRAM/MCBA Cap

D.18-12-021 temporarily authorized a 15% cap on annual amortization of Cal-Am's WRAM/MCBA. As Special Request #5, Cal-Am sought to increase this cap to 25%, effective January 1, 2021, to better collect existing WRAM/MCBA balances in 2021-2023 and limit future surcharges.⁴⁸⁷

Cal Advocates argued this request should be denied because the current cap does not inhibit conservation, and the requested increase in the cap would not solve the current or potential future equity problems.⁴⁸⁸ MPWMD further argued that Cal-Am should close surcharge accounts when possible and include additional transparency about how these charges will impact customers' rates.⁴⁸⁹

Although Cal-Am disagreed with Cal Advocates' recommendation, in its rebuttal, Cal-Am modified this request to largely maintain the 15% cap temporarily authorized in the last GRC and requested to increase the cap on the WRAM/MCBA in the Central Satellite, Ventura, and Baldwin Hills Districts from 15% to 20%.⁴⁹⁰

Rather than litigating this issue, the Settlement provides that Cal-Am will maintain the current 15% cap of the authorized revenue requirement for recovery of the under-collected WRAM/MCBA balances adopted in D.18-12-021, until 2023 when the WRAM/MCBA mechanism comes to an end for Cal-Am.

⁴⁸⁷ A.19-07-004 at 11; Exhibit CAW_6 at 59-67 and Attachments 5 and 6.

⁴⁸⁸ Exhibit CalPA-10 at 5-23 to 5-26.

⁴⁸⁹ Exhibit MPWMD-3 at 16.

⁴⁹⁰ Exhibit CAW-18 at 72-79.

We find the Settlement, as it relates to Cal-Am's WRAM/MCBA balances and the authorized cap established in D.18-12-021, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, pursuant to the Commission's approval of the temporary 15% cap in Cal-Am's prior GRC proceeding. Cal-Am shall maintain the 15% cap related to its WRAM/MCBA balances as authorized in D.18-12-021 through this GRC cycle. This approach balances Cal-Am's need for accelerated cost recovery with mitigating the rate impacts to customers.⁴⁹¹

14.6. Incentivizing Taxable Grants, Contributions, and Advances

In Special Request #6, Cal-Am requested recovery of the federal tax imposed on all contributions-in-aid-of-construction (contributions) and any advances for construction, pursuant to the TCJA. Further, Cal-Am requested that, to the extent any grants received are taxable, the tax portion be included in rate base.⁴⁹²

Cal Advocates objected to this request, arguing it is contrary to the long-standing principle that the person/entity that causes the tax should pay the tax.⁴⁹³ Currently, contributors and ratepayers share taxes on contributions, but ratepayers take on a much smaller share of the tax burden.⁴⁹⁴ Cal Advocates

⁴⁹¹ MPWMD opening brief at 5.

⁴⁹² A.19-07-004 at 11; Exhibit CAW-6 at 67-70.

⁴⁹³ Exhibit CalPA-2 Dawadi Chapter 2 at 10-16 and Attachment 3.

⁴⁹⁴ Exhibit CalPA-2 Chapter 2 at 10. "The Commission allows utilities to utilize Method 5 to calculate federal taxes on taxable contribution and advances. Method 5 places the major portion of the tax burden on the contributor (*Re Methods for Establishing the Proper Level of Expense Resulting from 1986 Tax Reform Act*, D.87-09-026, at 114 [1987 Cal. PUC LEXIS 195])."

argued that Cal-Am is seeking to collect the full taxes associated with contributions from ratepayers, which would be contrary to D.87-09-026.⁴⁹⁵

Cal-Am disagreed with Cal Advocates and proposed a modification to its initial request specific to the treatment of contributions and advances for the Placer Vineyards and Riolo Vineyards developments.⁴⁹⁶ Cal-Am stated that it would use Method 5 gross up treatment for the service connection components of those developments but would seek to recover any tax on non-service connection related components of the developments from ratepayers, but that expanding Method 5 to all contributions would have “a multi-million dollar impact to the project budgets” which could delay the projects as well as the development of new housing during a statewide housing crisis. Cal-Am further argued that including projected grant funds in the GRC could increase risk for both Cal-Am and its ratepayers because grant funds are not always available as forecasted.⁴⁹⁷

Rather than continuing to litigate this issue, the Settlement sets forth and agreement to continue use of Method 5 for new development and further provides as follows:⁴⁹⁸

- A. The tax gross up associated with federal and state government grants should be recovered through a Tier 2 Rate Base Offset Advice Letter. This will ensure that recovery only begins when the project is complete and/or the grant funding is received;

⁴⁹⁵ Exhibit CalPA-2 at 11-12. D.87-09-026 found Method 5 to be reasonable because it splits the tax burden between the contributor and ratepayers and provides the least risk to the utility.

⁴⁹⁶ Exhibit CAW-22 at 68-74 and Attachment 5.

⁴⁹⁷ Exhibit Cal-Am-22 at 71-74.

⁴⁹⁸ Settlement at 117.

- B. The tax gross up in the Tier 2 Advice Letter filing shall be addressed as an adjustment to deferred taxes;
- C. Effective January 1, 2021, through completion of the Placer and Riolo Vineyards developments, Cal-Am shall track and recover a limited adjustment to deferred taxes that reflects the agreement reached between Cal-Am and the Placer Vineyards Development Group;⁴⁹⁹ and
- D. Cal-Am shall withdraw its requested change to Method 3 for all new developments.

We find the Settlement, as it relates to taxable grants and contributions is reasonable in light of the whole record, consistent with the law, and in the public interest, because it protects ratepayers from paying taxes on contributions. Cal-Am shall continue the use of Method 5 to calculate federal taxes on taxable contribution and advances for new developments and may track and seek limited adjustments to deferred taxes, if any, related to its agreement with the Placer Vineyards Development Group as a separate line item or new special request in a future GRC filing.

14.7. Alignment and Simplification of District Specific Tariffs

Cal-Am's Special Request #7 requested to align its WRAM and MCBAs with its current and proposed tariffs, and to consolidate its CEBA for the Southern and Northern Divisions.⁵⁰⁰

Cal Advocates did not dispute Cal-Am's request to align the WRAM/MCBA related to the Northern Division and Central Satellite District

⁴⁹⁹ Exhibit CAW-22 Attachment 5 (Public) describes the agreement between Cal-Am and Placer Vineyards Development Group, which was executed more than two years prior to the TCJA. The agreement includes a Method 5 gross-up for all service connection related contributions and advances, and a Method 3 treatment for all non-service components of the Placer and Riolo Vineyard developments.

⁵⁰⁰ A.19-07-004 at 12; Exhibit CAW-6 at 80-81.

but recommended that, for the Southern Division, Cal-Am should only be authorized to consolidate the accounts if the Commission approves consolidation of the associated revenue requirements.⁵⁰¹

The Settlement adopts Special Request #7 and reflects the agreements related to Cal-Am's Southern Division consolidation as discussed in Section 14.1.⁵⁰²

We find the Settlement, as it relates to Cal-Am's request to align its WRAM and MCBA's with its current and proposed tariffs, and to consolidate its CEBA for the Southern and Northern Divisions, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it aligns Cal-Am's WRAM/MCBA accounts to its tariff structures.

Within 30 days of the adoption of this decision, Cal-Am shall:

- A. Establish (1) a single WRAM/MCBA, (2) a single WRAM/MCBA surcharge, (3) a single CEBA, and (4) a single CEBA surcharge for its Southern Division;
- B. Establish (1) a single WRAM/MCBA, (2) a single WRAM/MCBA surcharge, (3) a single CEBA, and (4) a single CEBA surcharge for its Northern Division. These accounts should include customers in the Hillview and Meadowbrook service territories; and
- C. Fold its Toro and Ambler pre-2018 WRAM/MCBA balances into the existing Central Satellite WRAM/MCBA.

14.8. Meadowbrook Rate Design Consolidation Deferral

Cal-Am's Special Request #8 sought to defer rate design consolidation in its Meadowbrook service district. D.16-12-014 authorized Cal-Am to move its Meadowbrook customers onto the Sacramento District Rates, but in this GRC,

⁵⁰¹ Exhibit CalPA-10 Rose testimony at 5-27.

⁵⁰² Settlement at 118.

Cal-Am proposed a separate, stand-alone rate design for Meadowbrook customers that has three tiers, with costs based on specific consumption profiles in the Meadowbrook District.⁵⁰³

Cal Advocates argued that consumption in the Meadowbrook District “far exceeds” consumption in the Sacramento District and that Cal-Am’s proposed rate design could mute conservation signals in districts that have lower usage and result in “unexpectedly large bills” for customers that have usage just above average especially in higher-use district. Cal Advocates proposed an alternate rate design for the Meadowbrook District based on a four-tiered rate structure that has step-ups in commodity rates and tier breakpoints.⁵⁰⁴

Cal-Am argued its proposed rate design would accelerate the adjustment of Meadowbrook customers’ usage to the more typical usage rates of customers throughout its Sacramento District.⁵⁰⁵

The Settlement adopts Cal-Am’s Special Request #8 using the rate design agreed to regarding the Sacramento District in Sections 4.1 and 4.2 of the Settlement and described in Section 6 above. We find the Settlement, as it relates to Cal-Am’s proposed deferral of a consolidated Meadowbrook rate design, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest.

⁵⁰³ Exhibit CAW-6 at 76-83. Cal-Am states that the proposed Meadowbrook rate design mirrors the Sacramento District’s three-tier rate design but is based on usage profiles of customers in the Meadowbrook District.

⁵⁰⁴ Exhibit CalPA-10 at 4-15 to 4-17, 5-5 to 5-6, and 5-27 to 5-28.

⁵⁰⁵ Exhibit CAW-20 at 77-78. Cal-Am argues that adding a third tier for Meadowbrook customers should drive the overall consumption down without adversely affecting customer rates overall.

The agreed-upon rates and tier breakpoints for Meadowbrook customers will not hinder conservation signals and will better align customer rates in the recently-acquired service territory with those in the rest of Cal-Am's Sacramento District. Cal-Am shall align its Meadowbrook customer rates with the rate design agreed upon for the Sacramento District in Settlement Sections 4.1 and 4.2.

14.9. Rate Case Expense Recovery

Cal-Am's Special Request #9 sought to amortize rate case expenses over 27 months. Cal Advocates suggested this request would violate the Commission's Revised Rate Case Plan and should only be considered through an industry-wide rulemaking.⁵⁰⁶ Cal-Am agreed to withdraw this request, and the Settlement reflects Cal-Am's withdrawal of Special Request #9.

We find the Settlement, with respect to Cal-Am's Special Request #9, to be reasonable in light of the whole record, consistent with the law, and in the public interest. The Settlement moots this request for our consideration and ensures Cal-Am shall continue to amortize its authorized level of rate case expense over 36 months, as adopted in D.07-05-062.

14.10. Subsequent Rate Changes

As Special Request #10, Cal-Am sought authority to fully incorporate any rate changes that occurred between its filing of A.19-07-004 and the issuance of

⁵⁰⁶ Exhibit CalPA-8 Chapter 1 at 1-7, D.07-05-062 Attachment A, and Settlement at 119. Cal-Am disagreed with Cal Advocates' position in Exhibit CAW-20 at 78-80, but ultimately agreed to withdraw Special Request #9.

this Decision.⁵⁰⁷ Cal Advocates agreed with this request.⁵⁰⁸ The Settlement sets forth an agreement to adopt Cal-Am's Special Request #10.⁵⁰⁹

We find the Settlement, as it relates to Cal-Am's request to incorporate all rate changes that have occurred when implementing this Decision, is reasonable in light of the whole record, consistent with the law, and in the public interest, because it ensures and incremental rate changes that occurred between the filing of A.19-07-004 and the issuance of this Decision are included in Cal-Am's implementation of this GRC. Cal-Am's implementation Advice Letter for this Decision should describe and reflect all rate changes that have occurred in the time since A.19-07-004 was filed.

14.11. Acquisition Revenue Requirement Normalization

As Special Request #11, Cal-Am requested to normalize the UPAA across its rate base entirely for its approved Rio Plaza, Fruitridge, and Hillview acquisitions and partially for its proposed Bellflower acquisition.⁵¹⁰

Cal Advocates recommended the UPAA should be spread across all ratemaking areas to achieve what Cal Advocates proposed would be the largest socialization of excess acquisition costs possible.⁵¹¹ Cal Advocates also stated that the Commission should reduce the UPAA associated with the Bellflower

⁵⁰⁷ A.19-07-004 at 12; Exhibit CAW-6 at 81-86.

⁵⁰⁸ Exhibit CalPA-2 at 17-22.

⁵⁰⁹ Settlement at 119.

⁵¹⁰ A.19-07-004 at 12; Exhibit CAW-6 at 83-84; Exhibit CAW-9 at 55-63.

⁵¹¹ Exhibit CalPA-8 at 5 references Senate Bill 1268 (Kelley, 1997), which enacted the Public Water System Investment and Consolidation Act that requires the Commission to utilize "fair market value" to develop the rate base for acquired systems and describes how the acquired systems' accounting value may be lower than the calculated "fair market" value.

acquisition by \$8 million to account for what Cal Advocates argued is an unreasonable acquisition cost.⁵¹²

Duarte raised concerns that, without spreading the UPAA associated with the Bellflower acquisition, its residents could see up to a 28% monthly rate increase.⁵¹³

In rebuttal, Cal-Am agreed with Cal Advocates that the UPAA should be spread across all ratemaking areas to achieve greater socialization of excess acquisition costs but disagreed that its Bellflower acquisition costs were inflated.⁵¹⁴ Cal-Am also provided additional information about its Hillview water system acquisition as approved in D.19-11-003.

Rather than litigating this issue, the Settlement provides an agreement to allocate the UPAA associated with Cal-Am's acquisitions of Fruitridge Vista, Rio Plaza, and Hillview across all ratemaking areas and to remove any UPAA costs associated with the Bellflower acquisition, which has not yet been approved by the Commission.⁵¹⁵

MPWMD argued that this request and the agreements reached in the Settlement regarding UPAA are not in the interest of Monterey County customers because the compromises fail to consider the existing financial burdens Monterey County customers already face or how the incremental costs associated with Cal-Am's system acquisitions would adversely affect customers in the Monterey Service Area.⁵¹⁶ MPWMD recognizes that the statewide

⁵¹² Exhibit CalPA-8 Chapter 2 at 4-6.

⁵¹³ Exhibit Duarte-1 at 7-8.

⁵¹⁴ Exhibit CAW-22 at 75-77.

⁵¹⁵ Settlement at 120.

⁵¹⁶ MPWMD opening brief at 10.

allocation of UPAA is a standard policy, as defined in Pub. Util. Code Section 2720 but still requests relief from any rate increases associated with Special Request #11 and any UPAA related rate impacts associated with future Cal-Am acquisitions.⁵¹⁷

We find the Settlement as it relates to this Special Request #11 is reasonable in light of the whole record of this proceeding, consistent with the law and Commission precedent related to UPAA and acquisitions, and in the public interest, because it ensures no costs associated with the pending Bellflower acquisition are recovered without Commission approval of that acquisition. While Cal-Am's cost recovery associated with buying and maintaining the smaller systems creates diseconomies of scale, the statewide UPAA allocation provided in the Settlement provides the largest socialization of cost increases possible.

We agree with Cal Advocates that "[i]f the initial acquisition price is unreasonable, any ensuing UPAA and ratepayer impact is also unreasonable, regardless of how small the impact might be on a per customer basis."⁵¹⁸ It is the Commission's purview to fully review each acquisition filing on the merits of a utility's application, and that evaluation process occurred prior to Commission approval of the Fruitridge Vista, Rio Plaza, and Hillview systems. Therefore, for the purposes of this GRC, the UPAA associated with the acquisitions of Fruitridge Vista, Rio Plaza, and Hillview water systems should be allocated across all ratemaking areas as discussed in Settlement Section 5.11 and 12.11 and detailed in the Settlement Attachments E-1 and F-1.

⁵¹⁷ *Ibid.*

⁵¹⁸ Exhibit CalPA-8 at 6.

However, the Commission's review of Cal-Am's proposed Bellflower acquisition is still ongoing.⁵¹⁹ If the Bellflower acquisition is approved after this GRC is decided, Cal-Am may incorporate the authorized acquisition costs into rates pursuant to the final decision in that proceeding.

14.12. Annual Consumption Adjustment Mechanism

Cal-Am was authorized to create a pilot Annual Consumption Adjustment Mechanism (ACAM) in the Monterey County District in D.18-05-027.⁵²⁰ In this GRC, as Special Request #12, Cal-Am requested to make its pilot ACAM permanent in the Monterey County District and to establish a similar ACAM pilot program for Cal-Am's Northern Division.⁵²¹ MPWMD, Cal-Am, and Cal Advocates reached a settlement creating the ACAM pilot program in the Monterey District in A.15-07-019.⁵²²

Cal Advocates argued that the Commission is currently evaluating the concept of Sales Reconciliation Mechanisms such as the ACAM in a water-industry-wide proceeding, R.17-06-024, and that using the advice letter process for rate changes could result in more frequent rate changes that are less rigorously considered than a GRC.⁵²³

⁵¹⁹ A.18-09-013.

⁵²⁰ D.18-05-027 adopted a Settlement between Cal-Am, Cal Advocates, and MPWMD and authorized Cal-Am to establish a pilot "annual consumption true-up pilot program (ACPP)" to track and account for the costs of acquiring replacement water to replace the court-ordered ramp-down of withdrawals from the Seaside Groundwater Basin, and a Consumption Adjustment Mechanism to update water demand in the Monterey District.

⁵²¹ A.19-07-004 at 13; Exhibit CAW-6 at 81-91 and Attachments 7 and 8.

⁵²² See Presiding Officer's Decision Adopting Phase 3B Settlement Agreement in A.15-07-019, Attachment 2, and D.18-07-010 adopting the Phase 3B Settlement Agreement.

⁵²³ Exhibit CalPA-10 at 5-29 to 5-35.

MPWMD supported Cal-Am's request, because it believes the ACAM "has provided an alternative to poor revenue forecasting and was sorely needed in the Monterey District where WRAM balancing once exceeded \$39 million."⁵²⁴

Cal-Am argued that three-year sales forecasts are difficult to predict, and the Commission has previously found that reconciliation mechanisms such as the ACAM are appropriate tools for updating water demand and could also address WRAM/MCBA balances.⁵²⁵

Rather than litigating the ACAM issue, the Settlement provides that Cal-Am should incorporate the existing ACAM mechanism permanently in the Monterey County District and incorporate the adjustment mechanism approved in D.18-05-027, as part of the step and attrition filings for all districts, excluding (1) the Fruitridge sub-system in the Northern Division for 2022 and 2023; and (2) setting test year rates for the Monterey District.

We find the Settlement, as it relates to Special Request #12, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, pursuant to the directives adopted the Presiding Officer's Decision Adopting the Phase 3B Settlement Agreement in A.15-07-019, Attachment 2, and D.18-07-010 adopting the Phase 3B Settlement Agreement. The Monterey District ACAM shall be made permanent effective in 2021. The new pilot ACAM across other districts, excluding the Fruitridge sub-system, shall begin in 2021 with an adjustment mechanism that aligns with D.18-07-010. The pilot ACAM shall include the Fruitridge sub-system starting in 2024.

⁵²⁴ Exhibit MPWMD-3 at 17.

⁵²⁵ Exhibit CAW-20 at 80-88.

14.13. Consolidating Conservation Program Statewide

As Special Request #13, Cal-Am proposed to consolidate its conservation program, which is currently funded district-by-district, into a statewide program in which up to 50% of individually-authorized conservation budget funds can be shifted between different service areas.⁵²⁶

Cal Advocates recommended that the granting of Special Request #13 should be contingent on the following parameters:

- A. Conservation costs should be placed in base rates;
- B. Surcharge accounts associated with conservation costs should be closed; and
- C. Cal-Am should be prohibited from using conservation funds to pay any penalties or fines.⁵²⁷

The Settlement provides for a withdrawal of Special Request #13.⁵²⁸

We find the Settlement term on withdrawal of Special Request #13 is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. Withdrawal of this request aligns with MPWMD's request to maintain a separate, specific conservation budget for the Monterey District.⁵²⁹ Further, we agree with MPWMD that "outreach is an important component of each conservation and efficiency program proposed in this GRC. Outreach keeps customers aware of changing conditions and communicates information about programs that are available to the

⁵²⁶ A.19-07-004 at 13; Exhibit CAW-10 at 23-25 and Attachment 1.

⁵²⁷ Exhibit CalPA-6E at 90-96 and Attachment 73.

⁵²⁸ Exhibit CAW-23 at 4-11; Settlement at 121.

⁵²⁹ Exhibit MPWMD-2 at 11-13.

community.”⁵³⁰ Cal-Am shall continue partnering with local organizations to conduct customer outreach related to its conservation programs to ensure customers in each of its service districts are aware of the programs it offers.

14.14. Elimination of Duplicative or Unnecessary Reporting

As Special Request #14, Cal-Am requested to eliminate the following reports that it considered duplicative or unnecessary:

- A. The Monterey District rebate and audit reports required by D.09-05-029;⁵³¹ and
- B. The customer complaint reports required by D.06-11-050.⁵³²

Cal-Am stated that it already reports on rebate water savings figures and customer service performance metrics annually in its GO-103A filings to the Commission and that it has demonstrated its successful reduction of the number of formal and informal complaints received through the Commission’s Consumer Affairs Branch.⁵³³

⁵³⁰ Exhibit MPWMD-2 at 15.

⁵³¹ D.09-05-029 adopted specific reporting requirements regarding the Monterey District that were agreed upon in a Joint Settlement between Cal-Am, Cal Advocates, and MPWMD. Specifically, Cal-Am agreed to provide an annual conservation report for the Monterey District that includes estimated water saving calculations for each device offered through its customer-facing conservation programs; a summary of conservation plans for the following year; budgets for each planned conservation program; and an evaluation of the effectiveness of its outreach program(s). (See D.09-05-029 at Section 3.2.3 and Appendix A at 12-13.)

⁵³² D.06-11-050 adopted quarterly reporting requirements regarding California-specific statistics, by district, of all calls and final disposition of complaints and all complaints received at district and regional levels and their final disposition. It also directed Cal-Am to enter into a formal agreement with MPWMD related to conservation funding and programs. (See D.06-11-050 at 36 and 27-28.)

⁵³³ GO 103-A governs water service and provides minimum standards for operation, maintenance, design and construction along with specific reporting requirements for water utilities.

MPWMD did not oppose the proposed elimination of the rebate reports required in D.09-05-029. However, MPWMD argued that the number of customer complaints reported in the Monterey District is still disproportionately high; as such, the data required under D.06-11-050 should remain available to the public.⁵³⁴

Cal-Am noted the Consumer Affairs Branch of the Commission has consistent and regular contact with all regulated utilities, and the customer complaint reporting requirements adopted in D.06-11-050 are duplicative of its annual customer service reporting required as part of GO 103-A.⁵³⁵

The Settlement adopts Special Request #14 to eliminate the two reporting requirements.

In comments on the Settlement, MPWMD stated that the steeply-tiered rate design in the Monterey District results in frequent customer contact related to bills, leaks, and water pressure, and that waiting a full year to see the customer complaint statistics in Cal-Am's GO-103A reports would be a disservice to Monterey customers. MPWMD suggested that Cal-Am could sort the customer complaints and only provide quarterly reports for the Monterey District.⁵³⁶

We find the Settlement, as it relates to Special Request #14, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest because it eliminates duplicative reporting and administrative requirements. MPWMD has not adequately illustrated how a quarterly report of customer service requests and disposition would provide greater benefit to Cal-Am's Monterey District customers than the already-required annual

⁵³⁴ Exhibit CalPA-4 at 61-65; Exhibit MPWMD-2 at 16.

⁵³⁵ Exhibit CAW-23 at 13-14.

⁵³⁶ MPWMD response to the Settlement at 5.

GO 103-A compliance reporting. Further, MPWMD and/or the Commission can request specific customer complaint data from Cal-Am when necessary. Cal-Am is authorized to eliminate the Monterey District rebate and audit reports and the customer complaint reports, as requested in Special Request #14.

14.15. Proposed Operational Tariff Modifications

As Special Request #15, Cal-Am requested to modify several of its tariffs to better clarify the responsibilities of its customers and reduce inequities between customers. Specifically, Cal-Am requested operational modifications related to the following tariffs:

- A. The AMR/AMI Opt-Out Program;
- B. The Residential Fire Protection Service Multi-Use Customer Discount;
- C. Tariff Rule 10, as it regards billing errors;
- D. Tariff Rule 18, as it regards meter errors;
- E. Schedule CA-4 and CA-4H, as they regard Private Fire Services;
- F. Tariff CA-FEES to eliminate the connection fee; and
- G. A new statewide metered construction service meter tariff.⁵³⁷

Cal Advocates argued that the Commission should require Cal-Am to report any revenues resulting from the tariff modifications in its steps filings, GRCs, and any other reports of recorded revenue, and that the requested Rule 10 and Rule 18 modifications should be denied because those changes could limit customers' ability to be refunded for billing errors. Cal Advocates also recommended the Commission deny any changes to the construction service meter tariff that would require customers to pay any outstanding balances in full

⁵³⁷ A.19-07-004 at 13; Exhibit CAW-5 at 115-125; Exhibit CAW-9 Attachment 5.

before any deposit is returned. Cal Advocates recommended that customers should instead be allowed to deduct outstanding balances from their deposits.⁵³⁸

Cal-Am argued that incentivizing contractors to return construction meters is challenging, and that its proposed modification to the construction service meter tariff would allow Cal-Am to replace the meter if it is not returned. Cal-Am further disagreed with Cal Advocates' proposed recommendations related to the operational tariff modifications, arguing that if connection fees are reported as revenues, Cal-Am's rate base would increase to recover them. Cal-Am stated that its treatment of service connection fees as contributions-in-aid-of-construction (contributions) offsets the addition to existing utility plant-in-service and creates no impact on customers' bills.⁵³⁹

Rather than litigating Special Request #15, the Settlement provides the following agreements:

1. For the AMI/AMR opt-out tariff revisions, Cal-Am will:
 - a. Offer customers the option to opt-out of the AMI before any new AMI meters are installed. Customers that opt-out will be charged a \$13.00 monthly charge once AMI billing is fully implemented but will not face the \$70.00 initial fee that is provided on Schedule CA-OUT.
 - b. File a Tier 1 Advice Letter to make Schedule CA-OUT effective no more than 90 days prior to the start of billing utilizing AMI meters.
 - c. Treat revenues generated through the monthly charges provided in Schedule CA-OUT as Other Revenue. However, because revenues received through the opt-out tariff will be minimal in this GRC cycle, they

⁵³⁸ Exhibit CalPA-10 at 5-36 to 5-40 and Attachments 7-9.

⁵³⁹ Exhibit CAW-19 at 31-34; Exhibit CAW-22 at 77-79.

cannot be accurately forecasted for inclusion in the authorized revenue requirement.

2. For new service connection fees, connection charges paid by new customers should be considered contributions and should offset the costs of the new connection.
3. For construction meter tariffs, Cal-Am should use construction meter deposits to offset the cost of a replacement meter, rather than offsetting any unpaid bill(s).
4. Cal-Am will withdraw its requests to modify Rules 10 and 18 related to meter and billing errors.⁵⁴⁰

We find the Settlement, as it relates to Special Request #15, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it ensures Cal-Am does not overcharge customers for replacement meters or new service connections and allows customers to opt-out of the AMI/AMR tariff.

Cal-Am shall file a Tier 1 Advice Letter making Schedule CA-OUT effective for customers seeking to opt-out of AMR/AMI 90 days prior to the date it anticipates using AMI meters for billing, so that customers that choose not to enroll in AMI can begin paying the \$13.00 monthly fee to cover meter-reader related labor costs. The fees collected through Schedule CA-OUT, which are expected to be minimal in 2021-2023, shall be treated as revenues during this GRC cycle. New service connection fees shall be treated as contributions and used to offset the cost of the new connections; construction meter deposits shall be used to offset the cost of replacement meters, if necessary; and Cal-Am's Rules 10 and 18 shall remain unchanged for this GRC cycle.

⁵⁴⁰ Settlement at 123-124.

14.16. Lead Service Line Replacement Program

As Special Request #16, Cal-Am requested authorization to create a new Lead Service Line Replacement Program to expand its existing, ongoing main replacement program to replace all lead portions of its service lines, including Cal-Am- and customer-owned sections.⁵⁴¹

Cal Advocates recommended the Commission require Cal-Am to maintain detailed records regarding all lead service line replacements including the location, length, and cost of each customer-owned service line replaced. Further, Cal Advocates argued the rate treatment of the costs associated with this Special Request should be considered in the next GRC, once Cal-Am has improved information about the program's costs.⁵⁴²

The Settlement adopts Special Request #16 as requested, with the caveat that Cal-Am be required to maintain detailed records about all lead service line replacements.⁵⁴³

We find the Settlement, as it relates to Special Request #16, to be reasonable in light of the whole record, consistent with the law, and in the public interest, because it will allow Cal-Am to continue replacing its lead service lines and improve data about the cost and location of service line replacements.

Cal-Am shall (1) create a new Lead Service Line Replacement Program as part of its existing, ongoing main replacement program; (2) track cost information about the utility- and customer-side costs associated with each lead service line replacement that occurs; and (3) provide that detailed information

⁵⁴¹ Exhibit CAW-5 at 29-34 and Attachment D; Exhibit CAW-9 at 45-47.

⁵⁴² Exhibit CalPA-5 at 103-109 and Attachment 11.

⁵⁴³ Settlement at 124.

related to lead service line replacements when seeking recovery of these costs in its next GRC.

14.17. High-Cost Fund for Active Wastewater Customers

As Special Request #17, Cal-Am requested authorization to create a new high-cost fund for its Central Division active wastewater service customers. Specifically, Cal-Am proposed to implement a flat surcharge of \$0.29/month for all of its non-low-income customers, both water and wastewater, that are not located in the proposed high-cost area to offset the costs for customers in the high-cost area. Cal-Am stated that rates for customers in the proposed high-cost area are significantly higher than those for passive wastewater customers in the same Division and are expected increase over time, because the related facilities require significant investments for maintenance or replacement.⁵⁴⁴

Cal Advocates argued this request is substantially the same as one the Commission declined to adopt in a settlement reached between Cal-Am, LPWC, and MPWMD in A.16-07-002.⁵⁴⁵ Las Palmas supported Cal-Am's Special Request #17, arguing that it would offset the rate increases in its service territory.⁵⁴⁶

Cal-Am disagreed with Cal Advocates and provided an examination of adjustments to the wastewater LIRA program and possible re-allocations that could be implemented to reduce the impacts of the high-cost fund on Cal-Am's active wastewater customers.⁵⁴⁷

⁵⁴⁴ A.19-07-004 at 14; Exhibit CAW-6 at 91-94 and Attachment 9; Exhibit CAW-2 at 17.

⁵⁴⁵ Exhibit CalPA-10 at 5-40 to 5-41.

⁵⁴⁶ Exhibit LPWC-1 at 2-3.

⁵⁴⁷ Exhibit CAW-16 at 7-11 and Attachment 1; Exhibit CAW-20 at 88-94 and Attachment 6.

The Settlement provides an agreement that Cal-Am will withdraw this request for this GRC.⁵⁴⁸

We find the Settlement's provision to withdraw Special Request #17 is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it prevents the implementation of a flat surcharge on customers' bills that may not be necessary to provide reliable service.

Cal-Am shall not create a new high-cost fund or implement a new surcharge to offset the costs of its active wastewater customers in the Central Division. Additionally, we agree that the cost allocation between passive and active wastewater customers in Monterey County should be updated to better reflect current system costs. Cal-Am shall implement the new factors agreed upon in Section 3.2 of the Cal-Am-Las Palmas Settlement as follows:

- A. General Office and Service Company allocated costs shall be reduced to 50% of the previously-established level;
- B. Costs associated with waste disposal, power, and chemicals shall be tracked and reported separately between the passive and active systems; and
- C. Labor cost allocation shall be 80% to active and 20% to passive, to acknowledge the additional labor necessary to support treatment facilities.⁵⁴⁹

15. Other Miscellaneous Issues

There are several outstanding issues in the scope of this proceeding, and they are addressed below.

⁵⁴⁸ Settlement at 124-125; Cal-Am-Las Palmas Settlement at 5-6.

⁵⁴⁹ *Ibid.*

15.1. AMI for Ventura and Central Division Customers

Issue 3 of the Scoping Memo concerns whether the \$3.7 million in costs requested by Cal-Am are reasonable. Cal-Am estimated that the cost to deploy AMI in its Ventura County and Central Divisions would be \$3.7 million. Provisions in the Settlement suggest different outcomes for this GRC dependent on the Commission's resolution of Issue 3 of the Scoping Memo.

There was little testimony on this issue, beyond Cal-Am's request and discussion of the tariff opt-out provisions, described in Section 14.15 above. Cal-Am sought to install AMI for approximately 62,000 water customers spanning the residential, industrial, and commercial classes, to better understand whether a two-way AMI system could better inform the utility and customers of leakages and other potential sources of water waste.⁵⁵⁰

Cal-Am described recent, smaller-scale pilot AMI projects it has conducted to evaluate the technology, which have occurred in the same service territories as this proposed program.⁵⁵¹ The utility estimated that over 20 years, it could see up to \$130.5 million in cost savings compared to a more standard, individual meter-reading technology.⁵⁵²

Cal-Am further suggested that "many of the meters being replaced as part of the AMI program would have been replaced due to [loss of service] within the next 2-10 years."⁵⁵³

We have reviewed the record of this proceeding as it relates to Cal-Am's proposed AMI deployment in its Ventura and Central Divisions and find its

⁵⁵⁰ Exhibit CAW-5C at 77-115.

⁵⁵¹ *Ibid* at 99-106.

⁵⁵² Exhibit CAW-5C at 204-209.

⁵⁵³ *Ibid* at 116.

proposal is reasonable and in the interest of ratepayers. Cal-Am's provided testimony and evaluation of its AMI pilots suggest the potential for improved ratepayer experience and lower overall costs should the AMI proposal be implemented.

Cal-Am shall allocate the costs associated with this program as set forth in the Settlement and provide the option for Ventura and Central Division customers to opt-out of AMI as discussed in Section 14.15 above.⁵⁵⁴

15.2. Safety

Issue 7 of the Scoping Memo concerns whether the Commission should address any safety issues within this GRC proceeding. Cal Advocates argued Cal-Am should update its Emergency Response Plans (ERPs), resume conducting and documenting annual emergency evacuation drills, and implement a comprehensive portable generator program.⁵⁵⁵

Cal-Am argued that it has already updated its ERPs and will continue conducting evacuation drills.⁵⁵⁶

The Settlement provides that issues related to Cal-Am's ERPs and its annual emergency evacuation drills were adequately addressed in the utility's rebuttal testimony.⁵⁵⁷

We find the Settlement, as it relates to safety and Cal-Am's ERPs, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it provides for continued evacuation

⁵⁵⁴ Settlement at 30-31 and Attachment G-2.

⁵⁵⁵ Exhibit CalPA-9C, Chapter 1 at 1-26. Cal-Am's ERPs were described in Exhibit CAW-5 at 34-52.

⁵⁵⁶ Exhibit CAW-19 at 23-27.

⁵⁵⁷ Settlement at 125-126.

drills and updates to Cal-Am's ERPs and supports a comprehensive evaluation of alternatives for stationary back-up generation units. Details about the scope and budget for the Standby Generator Improvement Program and the associated Portable Generator Planning Study are described in Sections 8.1.10, 8.3.2, 8.4.6, and 8.7.4 of the Settlement and Section 10 of this Proposed Decision.

15.3. Water Quality

Issue 5 of the Scoping Memo requires an evaluation of whether Cal-Am is complying with all statutory and regulatory requirements. Under an August 15, 2018 U.S. Environmental Protection Agency compliance order, Cal-Am is required to inspect all of its tanks on a semi-annual basis. Cal-Am stated that it has been implementing enhancements to its sampling and monitoring system (SAMS) and is designing smartphone applications that would allow water system operators to enter real-time data, so it is immediately accessible to Cal-Am and others. Cal-Am also stated its system automatically creates monthly and quarterly reports that streamline its water sample testing and reporting processes.⁵⁵⁸

Cal Advocates noted some inconsistencies with Cal-Am's Consumer Confidence Reports and suggested some steps that may ensure sampling and monitoring standards are fully incorporated and reported through Cal-Am's automated SAMS.⁵⁵⁹

Cal-Am agreed with Cal Advocates' recommendations regarding its SAMS program and corrected a typo related to prior Consumer Confidence Reports.

⁵⁵⁸ Exhibit CAW-5 at 16-29 and Attachment A.

⁵⁵⁹ Exhibit CalPA-9 Chapter 2 at 27-35.

Cal-Am also suggested the use of drones for biannual tank inspections can sometimes be unfeasible or unreliable.⁵⁶⁰

The Settlement provides an agreement that (1) adopts Cal-Am's requested cost recovery for biannual tank inspections, which will continue to incorporate unmanned drone inspections where feasible, and (2) requires Cal-Am to incorporate a notification system for water quality sampling and reporting throughout its SAMS programs and the company-wide Horizon Laboratory Information Management System.⁵⁶¹

We find the Settlement, as it relates to Issue 5 of the Scoping Memo and Cal-Am's water quality sampling and testing and associated costs, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. Cal-Am shall continue to conduct biannual tank inspections, utilize unmanned drones where feasible and implement a notification system to improve water quality sampling and reporting as proposed in Exhibit CAW-5.

15.4. Customer Service

Issue 4 of the Scoping Memo concerns Cal-Am's adequacy in responding to customer concerns. Cal-Am provided an overview of its customer service team, a summary of customer inquiries and complaints received in 2016-2018, and a description of changes the utility implemented to improve customer satisfaction.⁵⁶² Cal Advocates noted that while Cal-Am has a generally reasonable rate of customer complaints and inquiries, it should still be required

⁵⁶⁰ Exhibit CAW-19 at 27-31.

⁵⁶¹ Settlement at 126-127.

⁵⁶² Exhibit CAW-5 at 16-29 and Attachment A.

to reduce its abandoned call rate and increase the percentage of bills rendered in seven days to meet the standards established in GO 103-A.⁵⁶³

Cal-Am described extensive technology upgrades it conducted in 2018 which could have contributed to the lagging customer service metrics it reported that year but argued there were improved customer service metrics in 2019.⁵⁶⁴

The Settlement reached an agreement that notes Cal-Am's improved customer service metrics and requires Cal-Am to continue reporting the same customer service metrics in its next GRC application.⁵⁶⁵

We find the Settlement, as it relates to Issue 4 of the Scoping Memo and Cal-Am's customer service metrics and reporting, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. While Cal-Am's customer service metrics have improved from the levels reported in 2018, it is reasonable to require continued tracking and reporting of the same metrics to track further improvement or new issues that arise related to its customer service. Therefore, Cal-Am shall continue to track and annually report its customer service performance metrics as required under GO-103A, and those annual metrics shall be reviewed in its next GRC application.

15.5. Regulatory and Statutory Compliance

Issue 5 of the Scoping Memo concerns whether Cal-Am has complied with all regulatory and statutory requirements. Cal-Am noted that it has complied with the requirements established in Ordering Paragraphs 21 and 22 of D.18-12-021 by rehabilitating the following tanks:

⁵⁶³ Exhibit CalPA-9 Reed Public Chapter 2 at 27-35.

⁵⁶⁴ Exhibit CAW-23 at 9-11.

⁵⁶⁵ Settlement at 127.

- A. Lower Pasadera Tank
- B. Upper Pasadera Tank #1
- C. Upper Pasadera Tank #2
- D. Huckleberry Tank #2
- E. Boots Tank
- F. Forest Lake Tank #2
- G. High Meadows Tank #1⁵⁶⁶

Cal Advocates agreed that Cal-Am has complied with Ordering Paragraphs 21 and 22 of D.18-12-021, and the Settlement provides that Cal-Am is in compliance with Ordering Paragraphs 21 and 22 of D.18-12-021.⁵⁶⁷

Cal-Am also stated that it has performed a comprehensive review of all compliance items, documented the actions it has taken to ensure all historic compliance items were addressed, and that it is in full regulatory compliance.⁵⁶⁸ No party directly addressed this issue in testimony.

The Settlement provides an agreement that Cal-Am's documentation fully demonstrates compliance, and that the process Cal-Am has defined to track and ensure compliance is reasonable.⁵⁶⁹

We find the Settlement, as it relates to Issue 5 of the Scoping Memo, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it aligns with the requirements established in D.18-12-021. No further action is necessary for Cal-Am to comply with Ordering Paragraphs 21 and 22 of D.18-12-021. Cal-Am shall remove the

⁵⁶⁶ Exhibit CAW-9 at 69-79.

⁵⁶⁷ Exhibit CalPA-9 at 39-41; Settlement at 127-128.

⁵⁶⁸ Exhibit CAW-9 at 32-35 and Attachment 1.

⁵⁶⁹ Settlement at 128-129.

items listed as “complete” in Exhibit CAW-9 from the list of compliance items to be provided in its next GRC.

15.6. 100-Day Update for Workpapers

Cal-Am requested that its 100-Day Update be used as the base template for the workpapers adopted in this decision.⁵⁷⁰ No party objected to this request and the Settlement adopts Cal-Am’s 100-Day Update as the baseline to develop forecasted rates and revenue requirements in this GRC.⁵⁷¹

We find the Settlement term, as it relates to the use of Cal-Am’s 100-Day Update for workpapers, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because the tables in Cal-Am’s 100-Day update are more accurate and correct errors identified after the filing of A.19-07-004. The tables describing forecasted rates and revenue requirements, as included in the Settlement, are based off the 100-Day Update filed by Cal-Am and are adopted in this decision.

15.7. Cap on Surcharges

Cal Advocates recommended that the Commission should limit the amount of surcharges Cal-Am can collect on residential customers’ bill to 20% of the total bill amount.⁵⁷² Cal-Am argued that the revenue required for authorized costs is often recovered through surcharges, based on longstanding Commission policy associated with uncertain costs.⁵⁷³

The Settlement provides for capping surcharges to 20% of residential customers’ total bills for the 2021 test year, with the following exceptions:

⁵⁷⁰ Exhibit CAW-22 at 2-7.

⁵⁷¹ Settlement at 128.

⁵⁷² Exhibit CalPA-7 at 9-11

⁵⁷³ Exhibit CAW-25 at 9-25.

- A. For the Monterey District, the 20% cap applies but with adjustments made to exclude water supply-related surcharges;
- B. For the Hillview District, the impact of the existing SRF surcharge is excluded;
- C. Interim rates are excluded from the forecast of surcharges; and
- D. Any surcharge that would go above the 20% cap would be deferred for future recovery through rates.

We find the Settlement, as it relates to the cap on surcharges, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it limits the amount of uncertain costs Cal-Am can recover from customers and puts higher precedence on appropriate rate design across Cal-Am's service districts. Cal-Am shall cap the surcharge costs on residential customers' bills at 20% of the total bill, with the four exceptions described above.

We agree with BRECA that this cap on surcharges "should not be normalized as the automatic 'ask,' and all surcharges should be taken into account."⁵⁷⁴ Cal-Am shall include details on the surcharges in each district, the customer bill impacts related to the surcharges, and the improvements and efficiencies each surcharge is intended to fund, for review in its next GRC.

15.8. Earnings Test for Surcharges

Cal Advocates suggested that Cal-Am should be required to implement an earnings test to ensure that recovery of surcharge account balances will not produce a higher rate of return higher than authorized.⁵⁷⁵

⁵⁷⁴ Exhibit BRECA-1 at 2-3.

⁵⁷⁵ Exhibit CalPA-7 at 11-13.

Cal-Am argued the requirement for an earnings test was eliminated by D.06-04-037, and that there have been no circumstantial changes that warrant revisiting the applicability of the earnings test.⁵⁷⁶ The Settlement withdraws Cal Advocates' request.⁵⁷⁷

We agree with Cal-Am that the earnings test was appropriately eliminated by D.06-04-037 and does not need to be reinstated at this time. We therefore find the Settlement term, wherein Cal Advocates withdrew its request concerning the earnings test, moots this issue from our consideration and is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest.

15.9. San Marino Joint Conservation Program

San Marino argued that Cal-Am's estimate of rate increases in San Marino exceeds those that would occur in other Cal-Am California Districts.⁵⁷⁸ Cal-Am stated that San Marino and Duarte customers currently have the lowest rates because their purchased water costs are consolidated, and the only reason customers in San Marino have higher bills is that they have the highest usage statewide.⁵⁷⁹

The Settlement provides a consolidated Southern Division rate design that will create service charges that are consistent and quantity rates that vary based on allocation of purchased water costs.⁵⁸⁰ Only a subset of districts – San Diego, Ventura, and LA-Baldwin Hills, will receive an additional purchased water

⁵⁷⁶ Exhibit CAW-25 at 25-32.

⁵⁷⁷ Settlement at 129-130.

⁵⁷⁸ Exhibit San Marino-1 at 1-5.

⁵⁷⁹ Exhibit CAW-24 at 36.

⁵⁸⁰ Settlement at 130-131.

charge, and San Marino and Duarte customers will have the lowest forecasted rates based on the consolidated purchased water allocation methodology and rate design described in Sections 4.2, 4.3, and 12.1 of the Settlement and Section 14.1 above.

Because San Marino customers see higher bills associated with higher consumption, Cal-Am and San Marino reached an agreement to provide a joint conservation program with the following provisions:

- A. The Metropolitan Water District of Southern California (MWD) provides a member-funded, agency-administered incentive program for commercial and residential rebates, based on contract terms reached by the agencies or up to the project costs, whichever is lower. All projects are intended to enhance water savings;
- B. Through the MWD's program described in (A) above, San Marino has a total allocation of \$22,000 for fiscal years 2020/21 and 2021/22;
- C. Cal-Am shall match, dollar-for-dollar, any funds San Marino receives from the MWD program and assist San Marino City staff with applying for and reporting program(s) to MWD;⁵⁸¹
- D. Cal-Am shall work with San Marino to implement a community outreach program using a variety of media and communication types to educate and inform residents on the programs and classes they can participate in to lower indoor and outdoor water use to reduce their monthly water bills; and
- E. Cal-Am and San Marino will meet prior to Cal-Am's next GRC filing in July 2022 to discuss potential new projects or infrastructure improvements that would further benefit the San Marino water system.

⁵⁸¹ Cal-Am intends to match the MWD funds with funding from its conservation budget.

We find the San Marino Joint Conservation Program as provided in the Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest because it will support efforts to help San Marino District customers reduce water usage. Cal-Am shall work with San Marino to encourage customers in that District to implement water conservation measures, and Cal-Am shall use part of its conservation budget, as discussed in Section 7.11 above, to match the funds San Marino receives from the MWD's incentive program during this GRC cycle. Further, Cal-Am and San Marino shall meet and confer before Cal-Am's next GRC is filed to discuss potential upgrades that could benefit the San Marino system.

15.10. MPWMD User Fee

This issue was not directly addressed in the Settlement but in its opening brief, MPWMD requested clarification as to whether the 8.325% user fee is a water utility revenue source calculated as part of Cal-Am's annual gross receipts as opposed to a pass through.⁵⁸²

Cal-Am explained that the MPWMD user fee is applied by MPWMD, and that while Cal-Am collects the fee through customer bills, the amount collected is remitted to MPWMD to conduct the environmental mitigation projects authorized in D.17-01-013.⁵⁸³ Cal-Am stated the surcharge collected to support the authorized MPWMD environmental mitigation projects is computed based on water utility revenues, and the calculation does not include any pass-throughs, as required in Resolution M-4841.⁵⁸⁴

⁵⁸² MPWMD opening brief at 12.

⁵⁸³ Cal-Am reply brief at 14-15.

⁵⁸⁴ Resolution M-4841, adopted July 16, 2020, established user fees based on the projected revenue base for water utilities.

We have reviewed the record of this proceeding and find Cal-Am's explanation of the MPWMD user fee calculation is appropriate. Cal-Am's collection of the 8.325% user fee, which does not include any pass-throughs and is remitted to MPWMD to support authorized environmental mitigation projects in the Monterey District, is reasonable to continue for this GRC cycle.

16. Conclusion

As detailed above, the Settlement addresses majority of the issues identified in the Scoping Memo and incorporates the other agreements reached with Las Palmas and MPWMD related to issues in their specific regions of Cal-Am's service territory. The parties to the Settlement have demonstrated that the terms align with the requirements of Rule 12.1, through information provided in the Settlement itself, the Settlement's references to the whole record of this proceeding, and the documents filed in response to the ALJ's March 25, 2021 Ruling seeking additional information. Pursuant to Rule 12.1(d), this decision approves and adopts the three settlements, which collectively, resolve the majority of the issues in this proceeding and find that they are reasonable in light of the whole record, consistent with the law, and in the public interest.

This decision also resolves the remaining disputed issues, adopts a revenue requirement of \$271,997,800 for Test Year 2021 and authorizes the utility's general rate increases for 2021, 2022, and 2023 as summarized in the table below for the 2021-2023 GRC Cycle:

Ratemaking District	Adopted Revenue Requirement		
	TY 2021	Escalation Year 2022	Escalation Year 2023
Northern	\$72,718,400	\$75,966,500	\$78,740,800
Central	\$72,739,300	\$75,633,200	\$77,590,900
Southern	\$122,990,800	\$124,875,700	\$121,741,400
Monterey Wastewater	\$3,549,300	\$3,649,700	\$3,747,000
Total	\$271,997,880	\$280,125,100	\$281,820,100

This Decision, including the Settlement it approves and adopts, authorizes Cal-Am to recover a revenue requirement that exceeds its initial request in A.19-07-004 by approximately \$756,000. The increased costs are related to the Settlement's terms on Cal-Am's purchased water, purchased power, and additional operating expenses in Other Administrative and General accounts due to the acquisition of Rio Plaza, Fruitridge Vista, and Hillview systems. In the future, parties seeking adoption of a settlement agreement should provide an explanation as to why the Settlement would result in a higher revenue requirement than initially requested by a utility.

Further, as noted throughout this proceeding, Cal-Am is not authorized to recover any costs associated with the Bellflower system because its application to acquire Bellflower is still pending.

We also note, pursuant to Rule 12.5, our approval and adoption of the Settlement's terms does not bind or otherwise impose a precedent in this or any future proceeding. Neither Cal-Am nor any party to any of the three settlements may presume in any subsequent applications that the Commission would deem the outcome adopted herein to be presumed reasonable and it must, therefore, fully justify every request and ratemaking proposal without reference to, or reliance on, the adoption of these settlements.

17. Comments on Proposed Decision

The proposed decision of ALJ Carolyn Sisto in this matter was mailed to the parties in accordance with Section 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____

18. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Carolyn Sisto is the assigned ALJ in this proceeding.

Findings of Fact

1. On July 1, 2019, Cal-Am filed A.19-07-004 to increase revenues for water and wastewater service in each of its districts statewide for the years 2021 through 2023.
2. Cal Advocates, the City of Duarte, the Central Coast Coalition of Communities for Wastewater Equity, and MPWMD filed timely protests to A.19-07-004.
3. Cal-Am noticed customers of its proposed revenue requirement increase and the associated bill impacts on September 4, 2019.
4. Numerous public participation hearings were held throughout Cal-Am's service territory from December 2019 through February 2020.
5. From September to November of 2020, the parties to A.19-07-004 actively engaged in the Commission's ADR process.
6. Between January and February of 2021, the parties filed three separate motions for adoption of three separate partial settlements as follows:

Partial Settlement 1: The joint settlement between Cal-Am, Cal Advocates, and the Cities of Duarte,

San Marino, and Thousand Oaks (the Settlement);

Partial Settlement 2: The settlement between Cal-Am and MPWMD (Cal-Am-MPWMD Settlement); and

Partial Settlement 3: The settlement between Cal-Am and Las Palmas Wastewater Committee (LPWC or Las Palmas) (Cal-Am-Las Palmas Settlement).

7. *Partial Settlement 1* is referred to in this decision as the Settlement, and the tariffs and rates proposed in it, incorporate the terms of the other two settlements, *Partial Settlements 2 and 3*.

8. The Settlement resolves all but three outstanding disputed issues:

- (a) Cal-Am's request to drill a new well at the Sand City desalination plant;
- (b) Normalization of the Larkfield District wildfire recovery and future catastrophic event costs; and
- (c) Allocation of the UPAA for Cal-Am's acquisitions of Fruitridge Vista, Rio Plaza, and Hillview.

9. The Settlement results in the following public interest benefits:

- (a) The Parties represent both sides of this case: the utility and the ratepayers and the Settlement balances those interests at stake;
- (b) The Settlement serves the public interest by resolving competing concerns in a collaborative and cooperative manner;
- (c) The Settlement avoids the costs of evidentiary hearings and resources of the Commission, thus saving public and ratepayer funds to litigate the dispute;
- (d) The Settlement will provide efficient resolution of the majority of the contested issues, thus saving unnecessary litigation expenses and Commission resources;

- (e) The Settlement is consistent with the Commission's long-standing policy favoring the settlements of disputes to avoid costly and protracted litigation; and
- (f) The Settlement ensures that customers have continued access to an affordable, safe, and reliable water supply system.

10. There are no terms within the Settlement that would bind the Commission in the future or that would violate existing law.

11. Cal-Am's Hardship Assistance Program, which was initially grant-funded for customers in Monterey County, can provide ratepayers in other Cal-Am service territories relief from the potential of water service shut-offs.

12. Cal-Am will evaluate alternatives to installing stationary generators to supply essential power at its facilities, and treat any costs associated with its portable generator planning study as an expense in TY 2021.

13. D.89-11-058 did not consider the more sophisticated technology and computation tools available today to calculate forecasted CCFT and TY FIT.

14. D.21-06-015 requires Cal-Am to share customer information with electric investor-owned utilities to provide customers with increased access to and education about various hardship assistance programs.

15. The Commission is currently considering whether to further modify the current requirements for water and energy utilities to share low-income customer data in Phase II of R.17-06-024.

16. D.13-04-015 granted Cal-Am authority to recover the costs of water produced and delivered from the Sand City Desalination Plant from customers in its Monterey Service District.

17. Cal-Am's ability to utilize the Sand City Desalination Plant may decline without a new well being drilled.

18. Cal-Am's request to drill a new well at its Sand City Desalination Plant is not consistent with the authority granted in D.13-04-015.

19. The evidence in this proceeding does not support a new well at Sand City Desalination Plant as a reasonable, prudent expense to be recovered from ratepayers.

20. D.19-07-015 authorized all Class A water utilities to recover any approved costs associated with any incident(s) declared by the federal or state government to be a state of emergency through rates across their entire customer base.

21. MPWMD did not demonstrate how a quarterly report of customer service requests and disposition would provide greater benefit to Cal-Am's Monterey District customers than the already-required annual GO 103-A compliance reporting.

22. The customer complaint reporting requirements adopted in D.06-11-050 are duplicative of Cal-Am's annual customer service reporting required as part of GO 103-A.

23. Cal-Am has improved customer service metrics since 2018 and will continue tracking and reporting metrics associated with customer service.

24. Incremental surcharges have an impact on customer bills that is not easily forecasted for future GRC evaluation.

25. Cal-Am should develop a mechanism to return to customers any overcollection related to its LABA and its new leak adjustment policy.

26. The MPWMD user fee is collected by Cal-Am on customer bills based on water utility revenues and remitted to MPWMD to conduct the environmental mitigation projects authorized in D.17-01-013.

27. The calculation of the MPWMD user fee does not include any pass-throughs, as required in Resolution M-4841.

Conclusions of Law

1. Cal-Am should be authorized to increase its rates to recover the revenue requirements for 2021, 2022, and 2023, as follows: \$271,997,880 in 2021; \$280,125,100 in 2022; and \$281,820,100 in 2023.

2. The Settlement is reasonable in light of the whole record, consistent with law and in the public interest, and should be adopted, as modified in this Decision.

3. The Parties complied with the provisions of Rule 12.

4. Pursuant to Rule 12.5, the Settlement does not bind or otherwise impose a precedent in this or any future proceeding.

5. It is reasonable to require Cal-Am to complete a comprehensive study considering alternative back-up power resources in its service territories before authorizing any request to deploy and recover costs for new stationary generators at its facilities.

6. Cal-Am should include its conservation budgets in base rates at the General Office level, with allocation to its Districts, and should have flexibility to utilize its authorized conservation budget where needed, and within the three-year rate case cycle, as authorized for other forecasted capital or expense budgets. However, Cal-Am should only allocate the conservation budget authorized for its Monterey District to costs incurred within the Monterey District in 2021-2023.

7. It is reasonable to require Cal-Am to develop a methodology to calculate forecasted CCFT and TY FIT deductions for its next GRC filing.

8. Cal-Am's request to use ratepayer funds to drill a new well at the Sand City Desalination Plant is not consistent with the authorization regarding

Cal-Am's production and delivery of water from the facility adopted in D.13-04-015.

9. It is not reasonable for Cal-Am to recover the cost of drilling a new well at the Sand City Desalination Plant from ratepayers.

10. If Cal-Am receives any monetary compensation from the U.S. Air Force through its ongoing litigation, Cal-Am should file a Tier 2 Advice Letter seeking approval of a proposed recovered cost allocation to its ratepayers in the Sacramento District.

11. Cal-Am should provide the depreciation study information required by D.18-12-021 when it files its next GRC.

12. It is reasonable to require Cal-Am to include details on its surcharges in each district, the customer bill impacts related to the surcharges, and the improvements and efficiencies each surcharge is intended to fund, for review in its next GRC.

13. It is reasonable to require Cal-Am to regularly share data with electric IOUs to identify customers that may be eligible to enroll in its low-income assistance programs, pursuant to D.21-06-015.

14. Cal-Am should consolidate its Southern Division with the provisions and adjustments identified in the Settlement that ensure that no customer with usage rates that are equal or lower to the system-average will not pay more than the average system-wide rate increase, as detailed in Section 13.1 above.

15. Cal-Am should recover costs associated with the 2017 Larkfield District fires, net of any received insurance claim payouts, on a statewide basis, pursuant to D.19-07-015.

16. Additional wildfire related costs and potential 2018-2020 lost-quantity revenues associated with state-of-emergency events should be tracked and reviewed in Cal-Am's next GRC application for recovery on a statewide basis.

17. Costs associated with Cal-Am's proposed acquisitions should be requested through specific acquisition applications.

18. Cal-Am should not recover any costs associated with its proposed Bellflower acquisition until or unless the Commission approves the proposed Bellflower acquisition.

19. It is reasonable for Cal-Am to eliminate its annual and quarterly reports that are duplicative of the reporting requirements in GO 103-A.

20. It is reasonable for Cal-Am to provide further details about the surcharges applied to customers' bills in each district, including the customer bill impacts related to the surcharges and the improvements and efficiencies each surcharge is intended to fund, for review in its next GRC.

21. Cal-Am should use its conservation budget to match any funds San Marino receives from the MWD program, assist San Marino City staff with applying for and reporting program(s) to MWD, work with San Marino to implement a community outreach program to educate and inform residents on the programs and classes they can participate in to lower indoor and outdoor water use to reduce their monthly water bills and meet with the City of San Marino prior to Cal-Am's next GRC filing to discuss potential new projects or infrastructure improvements that would further benefit the San Marino water system.

22. Cal-Am should continue collecting the MPWMD user fee in this GRC cycle, and remit the amount collected to MPWMD to fund environmental mitigation projects that were authorized in D.17-01-013.

23. It is reasonable to require Cal-Am to provide additional notification to customers regarding the updated bill impacts associated with the revenue requirement authorized in this GRC.

24. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. California America Water Company is authorized to increase its rates to recover the revenue requirements, as follows: \$271,997,880 in 2021; \$280,125,100 in 2022; and \$281,820,100 in 2023.

2. The Settlement reached between California American Water Company (Cal-Am), the Public Advocates Office of the California Public Utilities Commission, and the Cities of Duarte, San Marino, and Thousand Oaks, which incorporates the two partial settlements reached between Cal-Am and Las Palmas Wastewater Committee and Cal-Am and the Monterey Peninsula Water Management District, is attached and incorporated hereto as Appendix B, and is approved and adopted, as modified in this Decision.

3. No later than 30 days following the issuance of this Decision, California American Water Company (Cal-Am) shall file its General Rate Case implementation advice letter as a Tier 1 Advice Letter, including updated tariffs as necessary to reflect all of the agreements related to capital expenditures and projects in the Los Angeles County, San Diego County, Ventura County, Central Division, Monterey County Wastewater, Sacramento County, and Larkfield Districts reached between the Public Advocates Office of the California Public Utilities Commission; the Cities of Duarte, San Marino, and Thousand Oaks; the Las Palmas Wastewater Committee; the Monterey Peninsula Water Management District; and Cal-Am.

4. California American Water Company shall not recover any costs associated with its proposed Bellflower acquisition until or unless it is ultimately approved by the Commission.

5. California American Water Company shall submit its 2022 and 2023 escalation advice letters no later than 45 days prior to their effective date on January 1, 2022, and January 1, 2023, respectively.

6. California American Water Company shall continue to regularly share data with electric investor-owned utilities to identify customers that may be eligible to enroll in its low-income assistance programs, pursuant to Decision 21-06-015.

7. California American Water Company shall prepare a Portable Generator Planning Study to consider alternatives to installing stationary generators at its facilities and budget \$150,000 or \$50,000 per Division, as a planning study expense in Test Year 2021 to complete this portable generator planning study.

8. California American Water Company shall not seek recovery of costs associated with drilling a new well at the Sand City Desalination Plant.

9. California American Water Company shall coordinate with Monterey Peninsula Water Management District to identify and prioritize projects to improve service and lower costs in the Monterey District prior to filing its next General Rate Case application.

10. California American Water Company shall consolidate its Southern Division as agreed to in Section 12.1 of the Settlement and shall design its Southern Division rates so customers with median and below-median consumption will not see more than the average system-wide increase in monthly bills.

11. California American Water Company shall recover the 2017 Larkfield Wildfire related costs, net of received insurance claims, on a statewide basis.

12. California American Water Company shall seek recovery of any wildfire-related costs incurred after May 31, 2019, on a statewide basis, pursuant to the provisions adopted in Decision 19-07-015.

13. In its next General Rate Case application, California American Water Company shall report details on the surcharges in each district, the customer bill impacts related to the surcharges, and the improvements and efficiencies each surcharge is intended to fund.

14. No later than 60 days following the issuance of this Decision, California American Water Company shall file a Tier 1 Advice Letter detailing its proposed mechanism for refunding customers any overcollection related to its Leak Adjustment Balancing Account and its new leak adjustment policy.

15. California American Water Company (Cal-Am) shall use conservation budget funds to match any funds San Marino receives from the Metropolitan Water District of Southern California (MWD) incentive program, assist San Marino City staff with applying for and reporting program(s) to MWD, work with San Marino to implement a community outreach program to educate and inform residents on the programs and classes they can participate in to lower indoor and outdoor water use to reduce their monthly water bills, and meet with the City of San Marino prior to Cal-Am's next General Rate Case filing to discuss potential new projects or infrastructure improvements that would benefit the San Marino water system.

16. California American Water Company shall continue collecting the Monterey Peninsula Water Management District user fee during this General

Rate Case cycle to support environmental mitigation programs that were authorized in Decision 17-01-013.

17. Application 19-07-004 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A:

Acronym List

APPENDIX B:

**Settlement between California American Water,
the Public Advocates Office at the California
Public Utilities Commission; and the Cities of
Duarte, San Marino, and Thousand Oaks**

APPENDIX C

Settlement between California American Water and Las Palmas Wastewater Committee

APPENDIX D:

**Settlement between California American Water and
the Monterey Peninsula Water Management District**